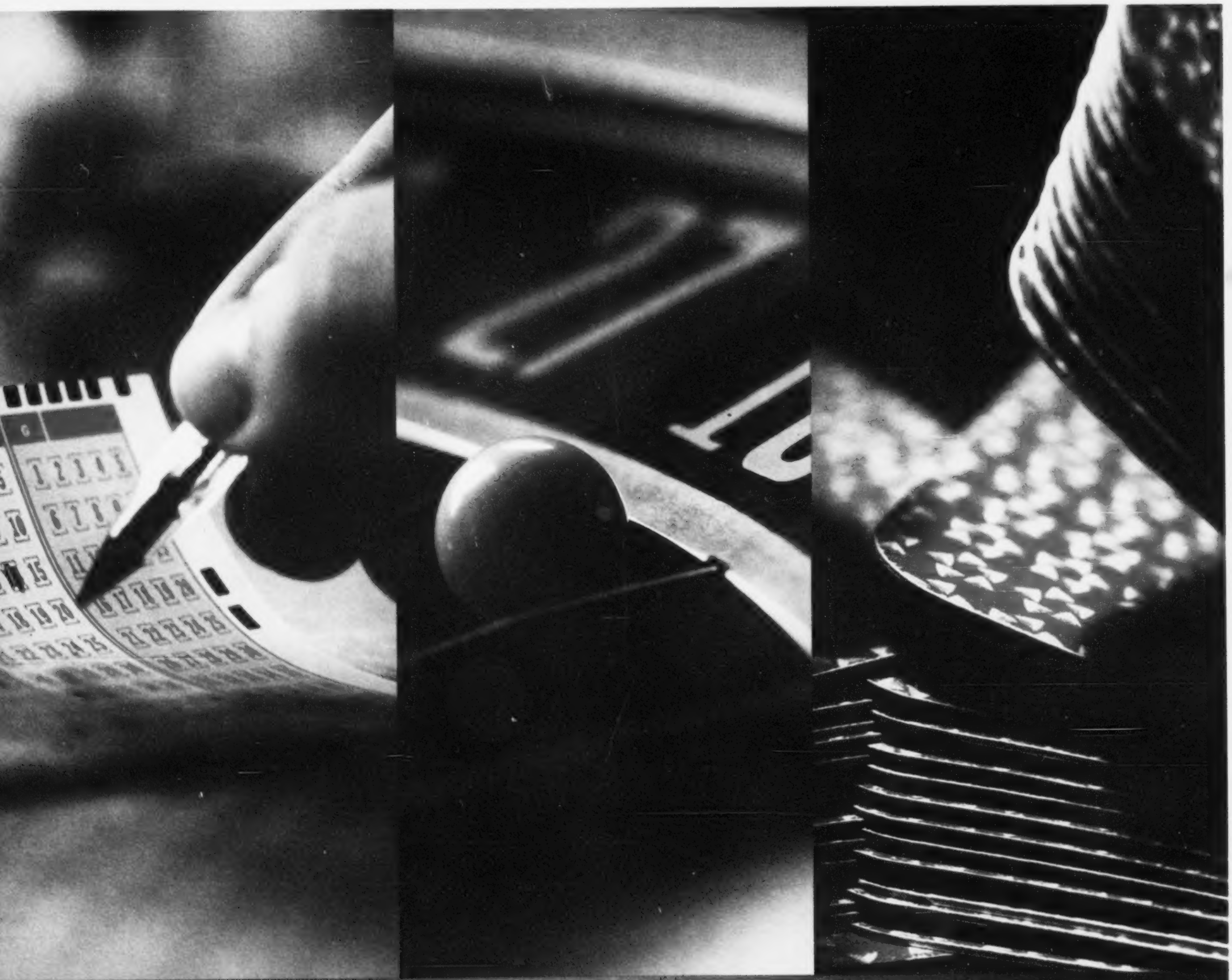

OLG Annual Report 2008–2009

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Board of Directors and Executive Management

Board of Directors

Michael J. Gough (Chair)
March 1, 2006 – June 6, 2009
(appointed Chair June 7, 2006)

Ron Fotheringham
August 25, 2004 – August 24, 2010

Marlene McGraw
February 15, 2006 – February 14, 2010

Debi Rosati
May 16, 2007 – May 15, 2010

Michelle Samson-Doel
July 5, 2004 – July 4, 2010

Jean-Pierre Soublière
May 30, 2007 – April 17, 2009 (resigned)

Beverly Topping
July 5, 2004 – July 4, 2010

Executive Management

During the 2009 fiscal year, senior executive members responsible for day-to-day operations were:

Kelly McDougald
Chief Executive Officer

Nick Bako
Chief Risk Officer

John Black
Chief Financial Officer

Lenna Bradburn
Chief Security and Compliance Officer

Richard Campbell
Senior Vice President, Human Resources

Larry Flynn
Senior Vice President, Gaming

Christopher Ginther
Senior Vice President, Legal, General Counsel and Corporate Secretary

Thomas Marinelli
Senior Vice President and Chief Information Officer

Greg McKenzie
Senior Vice President, Lottery

Rob Moore
Senior Vice President, Marketing, Communications and Stakeholder Relations

Overview

Ontario Lottery and Gaming Corporation (OLG or the Corporation) and its contract management companies employ more than 19,000 people across Ontario. It is responsible for 27 gaming sites as well as the sale of lottery products at more than 10,600 retail locations. An Operational Enterprise Agency created by the Government of Ontario, the Corporation is intended to provide gaming entertainment in an efficient and socially responsible way that maximizes economic benefits for the people of Ontario, related economic sectors and host communities.

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net revenue from lotteries, casinos and slots at racetracks be made available to the Government of Ontario for various purposes, including the provision of health care and the promotion and development of physical fitness, sport, recreation and cultural activities throughout the province. Revenues are also made available to the Ontario Trillium Foundation by the Government for distribution to charitable and non-profit organizations every year. The amount directed to the Foundation in fiscal 2009 totalled $110 million.

Corporate Mission

OLG's corporate mission guides employees in their work with customers and stakeholders. In all we do, we are asked to reflect on our purpose, realize our vision and embody clearly identified values.

Purpose

Make life better for people across Ontario — by generating revenue provincially and economic and social benefits locally.

Vision

Be the role model for gaming entertainment worldwide — by creating excitement and possibility for customers and generating economic return, while upholding the public's best interest.

Values

Act with **integrity** — by doing the "right thing," balancing what our customers and business partners ask of us with what the people of Ontario expect of us.

Respect our customers, employees, partners and the people of Ontario — by listening openly and honestly to the diversity of people and ideas around us.

Be **accountable** — by accepting the responsibility of setting and attaining high standards for ourselves in serving our customers and acting in the public interest.

The Balanced Framework

This Balanced Framework comprises four equally balanced priorities. They are:

Public Trust — Being guardians of the public trust through integrity of operations and promotion of responsible gaming

Player Experience — Providing great, entertaining gaming experiences

Partnerships — Being great partners in the communities in which we operate including helping our partner businesses and communities to thrive

Profit — Returning dividends to support public initiatives

Together, these four pillars ensure that OLG's decisions are balanced, reflecting both the need to always put the customer first and the objective of generating revenues that the province can invest in important public initiatives. By delivering on the promise of the Balanced Framework, OLG can enhance the public's trust in the organization. Staff and management alike are measured on their success in attaining targets set in each one of these priority areas, and achievement of these targets is built into the corporate compensation plan.

As a part of the entertainment industry, the Corporation's long-term success also depends on the quality of the entertainment value it provides to a wide range of adults, while encouraging a culture of moderation and responsible gaming.

OLG is a true partner in the support and development of Ontario's communities through the dividend it generates for investment in various programs as well as the regional employment opportunities it creates as a result of the organization's presence across the province.

By fostering a culture of integrity, transparency and accountability, guided by the four pillars, OLG has positioned itself to fulfill its stated vision of becoming a leader and role model for gaming entertainment worldwide.

Governance

The legislative authority of the Corporation is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*. Classified as an Operational Enterprise Agency, OLG has a single shareholder, the Government of Ontario, and for fiscal 2009, reported through its Board of Directors to the Minister of Energy and Infrastructure. Members of the Board of Directors and its Chair are appointed by the Lieutenant Governor in Council and come from various communities across the Province of Ontario. Effective March 31, 2009, the Board of Directors comprises Michael Gough of Toronto (Chair), Ron Fotheringham of Woodview, Marlene McGraw of Brantford, Debi Rosati of Ottawa, Michelle Samson-Doel of Richmond Hill, Jean-Pierre Soublière of Nepean and Beverly Topping of Toronto.

Board Mandate

The Board of Directors establishes policies for the Corporation and counsels the Chief Executive Officer and senior executives, who oversee the Corporation's business operations. The Board's mandate is to direct management's focus to optimizing the Corporation's overall performance and to increasing shareholder value by executing its various responsibilities:

- to establish a well-defined strategic planning process, setting strategic direction
- to approve the annual business plan as well as operating and capital budgets
- to define and assess business risks
- to review the adequacy and effectiveness of internal controls in managing risks
- to appraise the performance of the Chief Executive Officer
- to oversee a code of conduct to ensure the highest standards in dealing with customers, suppliers and staff, with due regard to ethical values and the interests of the community at large in all corporate endeavours
- to track the overall performance of the Corporation
- to remain informed and provide input as required concerning communications with the Government of Ontario and other stakeholders
- to ensure compliance with key policies, laws and regulations

Board Committees

The OLG Board of Directors operates through three permanent working committees and one ad hoc committee.

Governance and Nominating Committee

The Governance and Nominating Committee assists the Board in ensuring the Corporation's adherence to the highest standards in corporate governance. This committee helps the Board to identify areas for review and presents recommendations on corporate governance policies and practices. It also identifies the skills and attributes required by Board members and nominates persons for appointment to the Board. Composition of this committee, as of March 31, 2009, is Beverly Topping (Chair), Michael Gough and Michelle Samson-Doel.

Audit and Risk Management Committee

The primary function of the Audit and Risk Management Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the Corporation's financial statements, internal controls over operations and financial reporting, capital expenditure program and risk management program as well as legal and ethical compliance systems. Composition of this committee, as of March 31, 2009, is Marlene McGraw (Chair), Ron Fotheringham, Michael Gough, Michelle Samson-Doel, Debi Rosati, Jean-Pierre Soublière and Beverly Topping.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists in ensuring that the Corporation has sufficient knowledge, industry experience and organizational strength at the senior management level to

achieve its short- and long-term goals. This committee also recommends, for Board approval, the compensation and benefit plans for senior management. Composition of this committee, as of March 31, 2009, is Ron Fotheringham (Chair), Debi Rosati and Michael Gough.

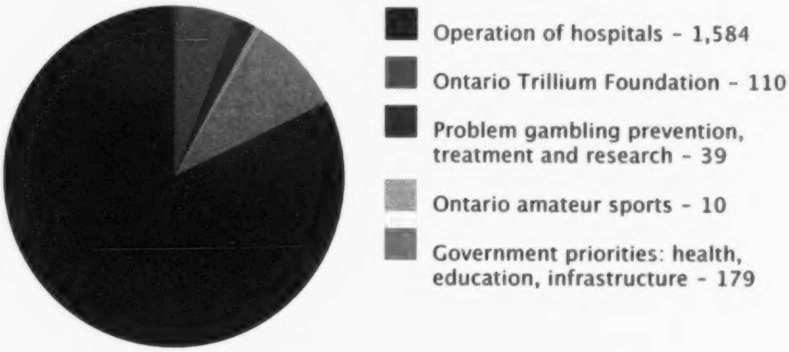
Ad Hoc Committee

In March 2007, the Ontario Ombudsman, André Marin, released his report on the level of service and protection that OLG must offer to its lottery customers. As such, an Ad Hoc Committee was established to oversee the implementation of recommendations proposed by the Ombudsman and the consultants engaged by OLG. Composition of this committee, which met from March 2007 until August 2008, was Michelle Samson-Doel (Chair), Michael Gough and Beverly Topping.

Economic Impact

Since 1975, OLG has generated more than $30 billion for the benefit of the Province of Ontario, all of which is invested by the government to support hospitals, amateur sport, recreational and cultural activities, communities, provincial priority programs such as health care, education, local and provincial charities and non-profit organizations through the Ontario Trillium Foundation.

Allocation of OLG Revenues ($ millions) $1,922 million
As reported by Ontario Ministry of Finance
Public Accounts of Ontario 2008-2009



The positive economic impact of OLG goes beyond the annual dividend to government. OLG's purpose is to "make life better for people across Ontario — by generating revenue provincially and economic and social benefits locally." In fact, in fiscal 2009, OLG operations generated $3.6 billion in total economic activity in Ontario.

Contribution to the Province $1.9 billion
includes:

- **$110 million** - Gaming proceeds distributed through the Ontario Trillium Foundation to local and provincial charities
- **$10 million** - Support for amateur athletes through the Quest for Gold program
- **$39 million** - Education, research, prevention and treatment of problem gambling*
- **Remaining $1.8 billion** - Hospitals, health-related programs and other provincial priorities

Corporate Responsibility $17 million
includes:

- **$9.2 million** - Education, research, prevention and treatment of problem gambling
- **$1.4 million** - Sponsorship of community and local music events
- **$6.5 million** - Proceeds from Electronic Bingo to participating local charities

Support for Local Economies $1.7 billion
includes:

- **$46.3 million** - Goods and services purchased from local Ontario businesses**
- **$940.6 million** - Payroll for more than 19,000 employees***
- **$118.6 million** - Payments to municipalities that host OLG gaming facilities
- **$340.3 million** - Payments to Ontario's horse racing industry
- **$207.4 million** - Commissions paid to lottery retailers

* Two per cent of revenue from slot machines at OLG casinos and slots facilities is allocated to the province's problem gambling program for research, treatment and prevention programs. In addition to this amount, OLG contributed $9.2 million.

** Excludes Resort Casinos.

*** Includes Resort Casinos.

Municipal and Industry Payments – Host municipalities for OLG casinos and slots at racetracks receive five per cent of slot machine revenues from the first 450 machines, and two per cent from each additional machine. Racetracks and horse people receive a predetermined percentage of revenue from slots, as outlined in the siteholder agreement with the corresponding racetrack operator.

2008-2009 Municipal and Horse Industry Revenue Allocations

OLG Casino	Municipality	Municipal Revenue Share
Brantford	Brantford	$ 3,035,000
Point Edward	Point Edward	$ 1,864,000
Sault Ste. Marie	Sault Ste. Marie	$ 1,521,000
Thunder Bay	Thunder Bay	$ 2,428,000
Thousand Islands	Gananoque, Leeds and Thousand Islands	$ 3,459,000

Slot Facility	Municipality	Municipal Revenue Share	Horse Industry Revenue Share
Ajax Downs	Ajax	$ 5,204,000	$ 19,216,000
Clinton Raceway	Central Huron	$ 658,000	$ 2,630,000
Dresden Raceway	Chatham-Kent	$ 680,000	$ 2,722,000
Flamboro Downs	Hamilton	$ 4,748,000	$ 25,782,000
Fort Erie Race Track	Fort Erie	$ 1,295,000	$ 8,014,000
Georgian Downs	Innisfil	$ 4,980,000	$ 20,052,000
Grand River Raceway	Centre Wellington	$ 2,225,000	$ 8,899,000
Hanover Raceway	Hanover	$ 1,084,000	$ 4,334,000
Hiawatha Horse Park	Sarnia	$ 1,594,000	$ 6,389,000
Kawartha Downs	Cavan Monaghan	$ 3,502,000	$ 14,010,000
Mohawk Racetrack	Milton	$ 5,757,000	$ 32,282,000
Rideau Carleton Raceway	Ottawa	$ 4,372,000	$ 28,388,000
Sudbury Downs	Sudbury	$ 2,092,000	$ 8,369,000
Western Fair Raceway	London	$ 4,192,000	$ 22,063,000
Windsor Raceway	Windsor	$ 1,538,000	$ 8,096,000
Woodbine Racetrack	Toronto	$ 16,601,000	$ 124,255,000
Woodstock Raceway	Woodstock	$ 1,210,000	$ 4,839,000

Management's Responsibility for Annual Reporting

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP). Where required, management has made informed judgments and estimates in accordance with Canadian GAAP.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their applications on an ongoing basis. The reports prepared by the internal auditors are reviewed by the committee. The Chief Risk Officer, responsible for Internal Audit and Enterprise Risk Management, reports directly to the Audit and Risk Management Committee.

KPMG LLP, the independent auditors appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, has examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the committee.

Kelly McDougald

Kelly McDougald
Chief Executive Officer

John Black

John Black
Chief Financial Officer

Auditor's Report

To the Board of Directors of the Ontario Lottery and Gaming Corporation and to the Minister of Energy and Infrastructure:

We have audited the consolidated balance sheet of the Ontario Lottery and Gaming Corporation as at March 31, 2009, and the consolidated statements of income and other comprehensive income, cash flows, retained earnings and contributed surplus for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements of the Corporation for the year ended March 31, 2008, prepared in accordance with Canadian generally accepted accounting principles, were audited in accordance with Canadian generally accepted auditing standards by KPMG LLP and Grant Thornton LLP, who expressed an opinion without reservation on those statements in the Auditors' report dated May 16, 2008.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada
June 16, 2009

Consolidated Balance Sheet

As at March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 323,952	$ 361,152
Accounts receivable	60,384	78,899
Prepaid expenses	36,834	30,478
Inventories (Note 2)	21,723	23,180
Current portion of loans receivable (Note 5)	7,209	7,892
	450,102	501,601
Restricted cash (Note 3)	192,887	183,491
Pre-opening and deferred expenditures (Note 4)	6,590	4,593
Loans receivable (Note 5)	29,248	37,604
Property, plant and equipment (Note 6)	2,483,198	2,500,217
Goodwill	1,776	1,776
Assets contributed to Chippewas of Mnjikaning (Note 7)	12,893	13,975
Cash and short-term investments held for First Nations (Note 8)	176,249	208,048
	$ 3,352,943	$ 3,451,305

	2009	2008
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 342,200	$ 366,671
Due to operators (Note 9)	44,464	42,337
Due to Chippewas of Mnjikaning (Note 9)	1,675	1,957
Due to Government of Canada (Note 19)	5,376	8,534
Deferred revenues	17,555	16,131
Current portion of due to First Nations (Note 8)	-	47,374
Current portion of long-term debt (Note 10)	86,765	191,381
	498,035	674,385
Due to First Nations (Note 8)	176,249	160,674
Long-term debt (Note 10)	169,607	105,781
Accrued future benefit costs (Note 17)	15,709	26,072
Asset retirement obligation	1,499	1,352
Equity		
Retained earnings	2,299,610	2,251,737
Contributed surplus	62,345	62,345
Reserves (Note 3)	129,889	168,959
	2,491,844	2,483,041
	$ 3,352,943	$ 3,451,305

Commitments (Notes 3, 5, 9 and 13), Contingencies (Notes 9 and 14), Subsequent events (Note 14)
See accompanying notes to consolidated financial statements.

On behalf of the Board

Michael J. Gough, Chair

Marlene McGraw, Director

Consolidated Statement of Income and Other Comprehensive Income

Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Revenues		
Lotteries and bingo	$ 2,947,616	$ 2,773,125
Resort casinos	1,408,813	1,395,319
Casinos and slots at racetracks	2,070,559	2,050,831
	6,426,988	6,219,275
Operating expenses		
Lotteries and bingo	2,192,732	2,090,639
Resort casinos	1,502,952	1,470,746
Casinos and slots at racetracks	1,104,698	1,096,120
	4,800,382	4,657,505
Income before the undernoted	1,626,606	1,561,770
Interest and other income	37,795	48,141
Interest on long-term debt	(9,316)	(14,204)
Foreign exchange gain	17,762	11,724
Net income and other comprehensive income	$ 1,672,847	$ 1,607,431

Segmented information (Note 15)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Retained earnings, beginning of year	$ 2,251,737	$ 2,127,773
Net income	1,672,847	1,607,431
Transfers (to) from reserves, net	39,070	(46,868)
Distribution to First Nations on behalf of the Province of Ontario	(67,805)	(54,672)
Payments to the Province of Ontario	(1,596,239)	(1,381,927)
Retained earnings, end of year	$ 2,299,610	$ 2,251,737

Consolidated Statement of Contributed Surplus

Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Contributed surplus, beginning of year	$ 62,345	$ 60,645
Contributed property, plant and equipment	–	1,700
Contributed surplus, end of year	$ 62,345	$ 62,345

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008
(in thousands of dollars)

	2009	2008
Cash flows from operating activities		
Net income	$ 1,672,847	$ 1,607,431
Amortization of property, plant and equipment and asset retirement obligation	258,163	255,190
Amortization of other long-lived assets	5,670	4,317
Accretion expense	147	186
Loss on disposal of property, plant and equipment	5,240	7,415
Accrued future benefit costs	(10,363)	8,170
Change in non-cash working capital:		
Accounts receivable	18,515	(200)
Prepaid expenses	(6,356)	1,365
Inventories	1,457	4,253
Accounts payable and accrued liabilities	(24,471)	235
Due to operators	2,127	(8,417)
Due to Chippewas of Mnjikaning	(282)	(577)
Due to Government of Canada	(3,158)	2,492
Deferred revenues	1,424	2,765
Due to First Nations	(4,466)	(12,293)
Net cash from operating activities	1,916,494	1,872,332
Cash flows used in financing activities		
Increase in long-term debt	144,068	82,415
Repayments of long-term debt	(184,858)	(176,973)
Payments to Province of Ontario	(1,596,239)	(1,381,927)
Distributions to First Nations	(63,339)	(42,379)
Net cash used in financing activities	(1,700,368)	(1,518,864)
Cash flows used in investing activities		
Pre-opening and deferred expenditures	(6,585)	(2,278)
Issuance of loans receivable	(190)	(814)
Repayment of loans receivable	9,229	12,560
Capital expenditures	(248,588)	(352,234)
Proceeds on disposal of property, plant and equipment	2,204	3,465
Increase in restricted cash	(9,396)	(61,091)
Net cash used in investing activities	(253,326)	(400,392)
Decrease in cash and cash equivalents	(37,200)	(46,924)
Cash and cash equivalents, beginning of year	361,152	408,076
Cash and cash equivalents, end of year	$ 323,952	$ 361,152
Cash and cash equivalents are comprised of:		
Cash	$ 314,642	$ 325,342
Cash equivalents	9,310	35,810
	$ 323,952	$ 361,152
Supplemental disclosure of cash flow information:		
Cash interest received	$ 9,423	$ 15,507
Cash paid for interest	5,951	14,585

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

As at March 31, 2009, with comparative figures for 2008
(tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (Corporation) was established without share capital on April 1, 2000, pursuant to the *Ontario Lottery and Gaming Corporation Act, 1999*. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five casinos and the Great Blue Heron Charity Casino Slot Machine Facility, seventeen slot operations at racetracks and four resort casinos in the Province of Ontario.

The Corporation (or Ontario Casino Corporation, one of its predecessor corporations) has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Group, L.P. and Great Blue Heron Gaming Company for the operation of Caesars Windsor (formerly Casino Windsor), Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview) and the Great Blue Heron Charity Casino Slot Machine Facility, respectively.

1. Significant accounting policies

a. Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary.

In addition, the consolidated financial statements include the financial position and results of operations of the resort casinos at Caesars Windsor, Casino Rama, Casino Niagara and Fallsview, and of the Great Blue Heron Charity Casino Slot Machine Facility.

The assets, liabilities and operations of the Great Blue Heron Charity Casino Slot Machine Facility are included in these consolidated financial statements. The operating results are included with the results of the casinos and slots at racetracks. These consolidated financial statements do not include other operations carried out at the Great Blue Heron Charity Casino.

b. Revenue recognition

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from lottery games, for which results are determined based on a draw, is recognized when tickets are sold to consumers and the related draw occurs. Revenue from instant games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from sports wagering games and bingo gaming is recognized when the ticket, paper or electronic game is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the difference between amounts earned through gaming wagers less the payouts from those wagers, with liabilities recognized for funds deposited by patrons before gaming play occurs, for chips, and 'ticket-in, ticket-out' coupons in the patrons' possession, and for accruals related to the anticipated payout of progressive jackpots. Significant base jackpots for progressive slot machines are charged to revenue over the estimated jackpot life cycle. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins or credits played, are charged to revenue as the amounts of the jackpots increase.

Discretionary and non-discretionary incentive programs are recorded in accordance with the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract 156, 'Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)' (EIC 156). EIC 156 requires that sales incentives and points earned in loyalty programs be recorded as a reduction of revenue. However, the Corporation recognizes incentives related to gaming play and points earned in loyalty programs as a promotional allowance, as described in Note 1(c), as the points are granted. Discretionary incentive programs, such as non-cashable free play, are offered based on past levels of play or to induce future play. Discretionary, non-cashable free play is not recorded as revenue. Non-discretionary incentive programs, such as point-based loyalty programs, are offered based on past levels of play.

Non-gaming revenue includes revenue from accommodations, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. Non-gaming revenue also includes the retail value of accommodations, food and beverage and other goods and services provided to patrons on a complimentary basis.

c. Promotional allowances

Promotional allowances include the retail value of accommodations, food and beverage and other goods and services provided to patrons on a complimentary basis, as well as the cost of points for the loyalty programs.

The players' loyalty programs at the resort casinos and casinos and slots at racetracks allow patrons to earn points based on the volume of play. These points, with the exception of the Total Rewards described below, are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. The patron's point balance will be forfeited if the patron does not earn additional points over the prior 12-month period. Promotional allowances include the estimated redemption value of the points as they are earned.

Patrons of Caesars Windsor participate in the Harrah's Entertainment Inc.'s (Harrah's) Total Rewards customer loyalty program. Total Rewards offers incentives to patrons who game at Caesars Windsor as well as at any of Harrah's casinos throughout the United States. Under the program, patrons are able to accumulate, or bank, reward credits over time, which they may redeem at their discretion under the terms of the program. The reward credit balance will be forfeited if the patron does not earn a reward credit over the prior six-month period. Caesars Windsor's portion of Total Rewards points earned by patrons is accrued as a liability based on estimated redemption.

Promotional allowances also include the retail value of coupons (accommodations, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is also included in non-gaming revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the consolidated statement of income and other comprehensive income.

d. Lottery prizes

Prize expense for lottery and bingo games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party. An estimate for lottery prizes that will not be claimed is recognized as unclaimed prizes in the period revenue is recognized. Periodically, prize expense is adjusted to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on national games are returned to the players through guaranteed jackpots and bonus draws. Unclaimed prizes on regional games are returned to the Province of Ontario through distributions to the Province. National games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional games are administered by the Corporation and sold only in Ontario.

e. Commissions and bonuses

Lottery retailers receive a commission of eight per cent on all instant tickets and a commission of five per cent on all online tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, this fee is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers also receive a three per cent commission on INSTANT ticket redemptions and a commission of two per cent on online ticket redemptions. A $1,000 bonus is paid to any retailer who sells a major prize-winning online ticket, excluding sports and daily games.

Bingo service providers receive a commission based on a percentage of total revenue, plus or minus incentive adjustments for achieving sales, prize payout, and cost of goods sold targets. Municipalities that host the Corporation's bingo halls receive a commission based on a percentage of total revenue.

Racetrack operators and the horse racing industry (typically, horse people) each receive a predetermined percentage of revenue from slots, as outlined in the siteholder agreement with the corresponding racetrack operator. Municipalities that host an OLG Casino or Slots at Racetrack facility receive five per cent of revenue from slots up to 450 machines and two per cent of revenue from slot machines over 450. As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas of Scugog Island First Nation receive five per cent of the revenue from the slot machines.

f. Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days. As at March 31, 2009, cash and cash equivalents include bank term deposits amounting to $9,310,000 (2008 - $35,810,000) at an interest rate of 0.35 per cent (2008 - 2.2 to 3.5 per cent).

g. Retailer and bingo service provider accounts receivable

Retailer accounts receivable represent lottery proceeds due from lottery retailers for lottery ticket sales net of commissions and prizes paid by the retailers. Also included are bingo proceeds due from bingo service providers for bingo sales net of commissions and prizes paid. An allowance for bad debts of $2,720,000 (2008 - $20,000) has been recorded on this receivable balance. As at March 31, 2009, the net book value of retailer and bingo service provider accounts receivable is $29,378,000 (2008 - $46,465,000).

h. Pre-opening and deferred expenditures

Certain expenditures, consisting of compensation, consulting and other direct costs incurred in connection with the development and opening of gaming sites, are deferred and amortized over three years, commencing with site opening.

i. Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	Over term of lease
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years
Energy centre assets	15 to 20 years

Property, plant and equipment are amortized when available for use.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon substantial completion of the related project.

Interest charges incurred during the construction and development of property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

j. Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning, and property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

As at March 31, 2009 and March 31, 2008, no impairments in the carrying value of these assets existed.

k. Deferred revenues

Funds collected from retailers for lottery games for which results are determined based on a draw, sold in advance of the game draw, are recorded as deferred revenue and recognized as revenue once the related draw occurs.

l. Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it is incurred and can be reasonably estimated. This liability is associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. The Corporation has recognized a discounted liability associated with obligations arising from provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease

terms. The adjustment to leasehold improvements in respect of asset retirement costs is amortized into income on a straight-line basis over the remaining life of the leases.

Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The resultant changes to the obligation that result from the passage of time are expensed in the period as accretion expense and any changes resulting from changes in the estimated future cash flows are capitalized to the cost of the leasehold improvements.

For the year ended March 31, 2009, the Corporation recorded amortization expense of $105,000 (2008 - $306,000) in the consolidated statement of income and other comprehensive income. The Corporation recorded a liability of $1,499,000 (2008 - $1,352,000) for the estimated present value of the costs of retiring leasehold improvements at the maturity of the leases and recorded deferred asset retirement costs of $406,000 (2008 - $366,000).

The gross amount of the obligation is $1,446,000 (2008 - $1,431,000), which is expected to be paid out in one to six years. The credit adjusted risk-free rate is 4.5 per cent. The accretion expense for the year was $147,000 (2008 - $186,000).

m. Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Corporation enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any. As at March 31, 2009, and March 31, 2008, no impairment in the carrying value of this asset existed.

n. Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, seniors' centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease, which expires in March 2021.

o. Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars at the year-end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. Consolidated statement of income and other comprehensive income items are translated at

the rate of exchange in effect at the transaction date. Translation gains and losses are included in the consolidated statement of income and other comprehensive income in the period in which they arise.

p. Use of estimates

The preparation of consolidated financial statements requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of property, plant and equipment, other long-lived assets and goodwill, unclaimed prize liabilities, employee future benefit obligations, asset retirement obligations, the patrons' loyalty program provision, the amount due to Government of Canada and the outstanding chip, ticket and token liability. Actual results could differ from those estimates.

q. Financial instruments

All financial instruments have been classified into one of the following categories: available-for-sale, held-to-maturity, held-for-trading, loans and receivables or other financial liabilities. All financial instruments, including derivatives, are recorded on the consolidated balance sheet and are measured at fair value with the exception of held-to-maturity loans and receivables, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend upon their initial classification.

The Corporation classified all cash and cash equivalents, accounts receivables, restricted cash, cash and short-term investments held for First Nations as held-for-trading assets, which are measured at fair value and the changes in fair value are recognized in net income. Loans receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to Government of Canada, due to First Nations and long-term debt are classified as other financial liabilities. They are measured at amortized cost. The Corporation did not have available-for-sale or held-to-maturity assets or liabilities during the years ended March 31, 2009, and March 31, 2008.

All derivatives, including embedded derivatives that must be separately accounted for, are measured at fair value, with changes in fair value recorded in the consolidated statement of income and other comprehensive income unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the hedged asset or liability is recognized in the consolidated statement of income and other comprehensive income. Any hedge ineffectiveness is recognized in net income immediately.

The Corporation records all transaction costs and loan fees for financial assets and liabilities as a component of the related asset or liability and amortizes the costs using the effective interest rate method to interest expense over the life of the related asset or liability.

The Corporation uses derivative financial instruments to manage risks from market price fluctuations for energy. These instruments include forward pricing agreements. The Corporation does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of derivatives are recorded in the consolidated statement of income and other comprehensive income.

r. Adoption of new accounting standards

i. Financial instruments

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3862, Financial Instruments - Disclosures (CICA 3862) and CICA Handbook Section 3863, Financial Instruments - Presentation (CICA 3863).

CICA 3862 requires disclosure about the significance of financial instruments on the Corporation's financial position and performance, the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the year and at the balance sheet date, and how the Corporation manages those risks.

CICA 3863 establishes standards for the presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have an impact on the classification and measurement of the Corporation's financial instruments. The additional disclosures required as a result of adoption of these standards are included in Note 11.

ii. Capital Disclosures

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 1535, Capital Disclosures (CICA 1535). CICA 1535 requires the Corporation to disclose information that enables users of its financial statements to evaluate the Corporation's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for non-compliance. These new disclosures are included in Note 12.

iii. Inventories

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3031, Inventories (CICA 3031). CICA 3031 provides enhanced guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The impact of adopting this new standard was immaterial to opening retained earnings as at April 1, 2008.

Inventories include spare parts for gaming, security and surveillance equipment, paper and ticket stock relating to lottery and bingo games, food and beverage inventory and retail inventory.

s. Recent Canadian accounting pronouncements

i. Goodwill and intangible assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets (CICA 3064). CICA 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Under the new standard, the Corporation will no longer be allowed to defer pre-opening costs. The Corporation will adopt this new standard effective April 1, 2009, and is assessing the impact of the new standard on its consolidated financial statements.

ii. International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Boards (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period.

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for government business enterprises for fiscal periods beginning on or after January 1, 2011. The Corporation's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include the comparative period of 2011.

The Corporation has completed a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP; however, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements. As this assessment is finalized, the Corporation intends to disclose such impacts in its future consolidated financial statements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are convergent with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Corporation's consolidated financial statements will only be measured once all the IFRS standards, applicable at the conversion date, are known.

2. Inventories

	2009	2008
Slot machine and table game parts	$ 9,772	$ 9,625
Lottery tickets and paper	7,912	9,948
Security and surveillance parts	1,488	1,487
Food and beverage	3,177	2,705
Retail	704	312
Other	3,229	3,655
	26,282	27,732
Less allowance	(4,559)	(4,552)
	$ 21,723	$ 23,180

Inventory costs, included in operating expenses, for the year ended March 31, 2009, were $108,032,000 (2008 - $108,383,000). During the year ended March 31, 2009, the Corporation recorded inventory write-downs in operating expenses of $1,228,000 and reversals of previously written-down amounts of nil.

3. Restricted cash and reserves

Included in restricted cash are the below-noted amounts, which are held in separate accounts.

		2009		2008
Reserves				
Capital renewals	$	31,449	$	45,416
Operating		59,106		87,063
Severance		39,334		36,480
		129,889		168,959
Less unrestricted capital renewals and operating		6,765		43,339
Funded reserves balance		123,124		125,620
Prize funds on deposit		45,913		41,900
Term loan proceeds		23,850		15,971
	$	192,887	$	183,491

The Corporation has established reserves at the resort casinos in accordance with their respective operating agreements, or other terms as otherwise agreed to, for the following purposes:

i. Capital renewals reserves - For property, plant and equipment additions other than normal repairs, and to satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations;

ii. Operating reserves - To satisfy specified obligations in the event that cash flows will be insufficient to meet such obligations; and

iii. Severance reserves - To satisfy certain obligations of the Corporation arising from the termination or layoff of employees of an operator in connection with the termination of an operator.

In fiscal 2009, the Corporation transferred cash of $35,500,000 to Caesars Windsor for their working capital requirements. The Corporation has committed to transferring additional amounts of up to $68,500,000 to Caesars Windsor in fiscal 2010.

In fiscal 2008, the Corporation transferred cash of $95,000,000 and $14,000,000 to Caesars Windsor's operating and capital renewals reserves, respectively, to replenish the reserve accounts to the balances specified by the terms of the operating agreement. The Corporation and the Operator have agreed that both the operating and capital renewals reserves, although contractually set aside for the above uses, are available to fund current operations, given the continuing negative cash flows at Caesars Windsor.

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by consumers.

Term loan proceeds represent restricted cash that was to be used for construction purposes at Niagara Fallsview Casino Resort and Caesars Windsor.

4. Pre-opening and deferred expenditures

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Pre-opening expenditures				
Resort casinos	$ 23,046	$ 16,931	$ 6,115	$ 2,082
Casinos and slots at racetracks	4,845	4,410	435	1,559
	27,891	21,341	6,550	3,641
Deferred expenditures	21,597	21,557	40	952
	$ 49,488	$ 42,898	$ 6,590	$ 4,593

Amortization of pre-opening and deferred expenditures for the year ended March 31, 2009, was $4,588,000 (2008 - $3,235,000).

5. Loans receivable

	2009	2008
Loans receivable	$ 38,307	$ 48,329
Less allowance for loans receivable	1,850	2,833
	36,457	45,496
Less current portion of loans receivable	7,209	7,892
	$ 29,248	$ 37,604

The Corporation has loaned and is committed to loan funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the Royal Bank of Canada's prime rate and are repayable over periods ranging from one to fifteen years. The amounts will be repaid under an agreed-upon formula by withholding from commissions that would otherwise be payable to the racetrack operators.

During fiscal 2009, additional funds were advanced to two racetrack operators for development and expansion of their respective properties. As at March 31, 2009, $15,210,000 (2008 - $14,509,000) had been advanced and has been included in loans receivable.

The Corporation's maximum remaining commitment as at March 31, 2009, is $7,378,000 to one racetrack operator.

6. Property, plant and equipment

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Land	$ 137,824	$ -	$ 137,824	$ 137,343
Buildings	1,858,585	248,407	1,610,178	1,297,377
Furniture and fixtures	659,737	481,638	178,099	181,355
Leasehold improvements	579,778	350,174	229,604	248,314
Lottery gaming assets	120,630	106,023	14,607	37,082
Casino and racetrack slot operation gaming assets	654,846	443,030	211,816	227,377
Energy centre assets	37,351	748	36,603	-
Construction in progress and assets not in use	64,467	-	64,467	371,369
	$ 4,113,218	$ 1,630,020	$ 2,483,198	$ 2,500,217

Amortization for the year was $258,058,000 (2008 - $254,884,000). During the year, net interest of $1,054,000 (2008 - $490,000) was capitalized.

7. Assets contributed to Chippewas of Mnjikaning

	Cost	Accumulated Amortization	2009 Net Book Value	2008 Net Book Value
Assets contributed to Chippewas of Mnjikaning	$ 32,337	$ 19,444	$ 12,893	$ 13,975

Amortization for the year was $1,082,000 (2008 - $1,082,000).

8. Cash and short-term investments held for First Nations

	2009	2008
Segregated bank account, beginning of year	$ 195,755	$ 173,113
Distributions to the segregated bank account during the year	21,763	14,687
Distributions from the segregated bank account during the year - per Court Order	(62,441)	-
Interest earned during the year	4,413	7,955
Segregated bank account, end of year	159,490	195,755
Current distribution due to First Nations	16,759	12,293
	$ 176,249	$ 208,048
Less current portion of due to First Nations - per Court Order	-	47,374
	$ 176,249	$ 160,674

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into the Casino Rama Revenue Agreement (the Agreement) which entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the Agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Agreement requires that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint

direction from the Ontario First Nations Limited Partnership (OFNLP) and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the OFNLP reach an agreement on a new revenue distribution formula, the Corporation is required to retain these funds. On June 10, 2008, the Corporation, pursuant to an Order of the Superior Court of Justice of Ontario, released $47,374,000 from the segregated bank account to the OFNLP. During fiscal 2009, two additional orders were received from the Superior Court of Justice of Ontario which required a total of $15,067,000 to be released from the segregated bank account to the OFNLP. The balance of funds will continue to be retained in a segregated interest-bearing bank account until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the OFNLP reach agreement on a new revenue distribution formula.

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and the OFNLP, among others, entered into a Gaming Revenue Sharing and Financial Agreement. The key terms of this new agreement are outlined in Note 9(f) to the consolidated financial statements.

The payment related to the monthly distribution of the net revenue for March 2009 of $16,759,000 is included above as a current distribution due to First Nations.

9. Related party transactions

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a. The Corporation is related to various other government agencies, ministries and Crown corporations. All transactions with these related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

b. Under the terms of the development and operating agreements for each of the resort casinos and the Great Blue Heron Slot Machine Facility each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements. The operators of the casinos are as follows: Casino Niagara and Fallsview – Falls Management Group, L.P., the general partner of which is Falls Management Company (owned by Niagara Casino Group, L.P., Highland Gaming, Inc., Shiplake Gaming Corporation, Olympic V, Inc. and 3048505 Nova Scotia Company) and the sole limited partner of which is Falls Entertainment Corporation; Casino Rama – CHC Casinos Canada Limited, an indirectly wholly owned subsidiary of Penn National Gaming, Inc.; the Great Blue Heron Slot Machine Facility – Great Blue Heron Gaming Company, a subsidiary of Casinos Austria; and Caesars Windsor – Windsor Casino Limited (WCL), which is owned equally by Harrah's Entertainment, Inc. and Hilton Hotels Corporation, in each case through wholly owned subsidiaries.

   On December 14, 2006, the Corporation entered into a new operating agreement with Caesars Entertainment Windsor Holding, Inc. (CEWH), one of the shareholders of WCL. Under the terms of the new operating agreement, commencing on the expiry or termination of the current operating agreement, CEWH will succeed WCL as the operator of Caesars Windsor until July 31, 2020, subject to earlier termination of the new operating agreement by the Corporation or CEWH upon the occurrence of certain events. The terms of the new operating agreement are substantially similar to those contained in the current operating agreement.

At each of the resort casinos, the operator is the employer of the employees working at that resort casino. All payroll and payroll-related costs are charged to the Corporation on a monthly basis, and are expensed in the Corporation's consolidated statement of income and other comprehensive income.

c. Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee, adjusted for inflation, relating to the provision of ongoing operating services. During the year, \$5,780,000 (2008 - \$5,616,000) was expensed. Other Chippewas of Mnjikaning charges amounting to \$7,821,000 (2008 - \$6,884,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a five-year lease renewal ending July 2011, for the rental of office space, \$683,000 (2008 - \$674,000) was expensed to a company related to the Chippewas of Mnjikaning. Also, under the terms of an eight-year lease ending July 2011, an annual rental, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, \$349,000 was expensed (2008 - \$342,000).

   On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75 per cent of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges noted above and is defined in the agreement for the period April 1, 2000 to July 31, 2011.

   The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease, adjusted for inflation, is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, \$4,460,000 (2008 - \$4,402,000) was expensed.

   The terms of various agreements provide for the designation and leasing of Additional Parking Lands, as defined, by the Chippewas of Mnjikaning to Casino Rama with an annual rent payable of approximately \$1,700,000, adjusted for inflation. While the designation and leases are not yet complete, the lands are permitted and currently in use at Casino Rama. During the year, \$2,004,000 (2008 - \$1,977,000) was expensed.

   Under the terms of a Letter of Agreement entered into by the Corporation in January 2007 regarding the management and administration of leasehold improvement projects at Casino Rama, the Chippewas of Mnjikaning contract directly with the contractors selected by the Corporation. During the year, \$3,606,000 (2008 - \$3,696,000) was paid to the Chippewas of Mnjikaning under this Letter of Agreement to pay contractors involved in the acquisition of leasehold improvements.

d. Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to five per cent of the gross revenue of the Great Blue Heron Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, \$4,556,000 (2008 - \$4,498,000) was paid to the Mississaugas of Scugog Island First Nation.

e. Under the terms of the Niagara Falls Permanent Casino Operating Agreement, in a Competitive Environment, as defined, the Operator is entitled to receive additional Operator services fees and an Attractor fee. The Attractor fee is calculated, as defined, to allow for the amortization of the total capital contributions of the Operator to external attractors, to a maximum contribution of

$30,000,000. As at March 31, 2009, the Operator's fees, due to the Operator, included an Attractor fee accrual of $5,058,000 (2008 - $5,088,000).

f. Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation under the authority of a 25-year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning First Nation.

Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues, as defined, of Casino Rama, as well as the proceeds from the disposition of the moveable assets, as defined, and remaining undistributed earnings upon the dissolution or wind up of Casino Rama.

On February 19, 2008, Her Majesty the Queen in Right of Ontario, the Corporation and the OFNLP entered into a Gaming Revenue Sharing and Financial Agreement (the Agreement). The key terms of the Agreement, relevant to OLG, are as follows:

i. The Province of Ontario shall pay, or require the Corporation to pay, to the Ontario First Nations Limited Partnership, commencing with fiscal year 2012 and in each fiscal year during the remainder thereafter of the 20-year term, an amount equal to 1.7 per cent of the Gross Revenues of the Corporation, as defined. These payments will take the place of the net revenues that the OFNLP would otherwise have been entitled to under the Casino Rama Revenue Agreement; and,

ii. The Chiefs of Ontario and the Ontario First Nations Limited Partnership shall, subject to acceptance by the Courts, discontinue the litigation related to the 20 per cent win contribution and release Her Majesty the Queen in Right of Ontario and the Corporation.

During fiscal 2009, the Notice of Discontinuance of the litigation related to the 20 per cent win contribution was accepted by the Courts.

10. Long-term debt

	2009	2008
Niagara Fallsview Casino Resort loan	$ 43,880	$ 214,747
Caesars Windsor loan	212,492	82,415
	256,372	297,162
Less current portion	86,765	191,381
	$ 169,607	$ 105,781

a. Niagara Fallsview Casino Resort loan

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for the purchase of the Niagara Fallsview Casino Resort from Falls Management Corporation (the developer). The initial loan balance of $794,000,000 plus interest is repayable over five years. The loan bears interest at a rate of 4.4 per cent per annum and is unsecured.

b. Caesars Windsor loan

In November 2008, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario, a related party) for purposes of financing the renovation and expansion of Caesars Windsor and for financing the construction of the Windsor Clean Energy

Centre (the Energy Centre). The Energy Centre is being constructed to provide electricity, heating and cooling to the expanded Caesars Windsor facilities. It is expected that the Energy Centre will also be able to provide excess electricity to the Windsor energy market. The initial loan balance of $226,482,970 plus interest is repayable over five years. The loan bears interest at a rate of 3.2 per cent per annum and is unsecured.

The principal loan repayments expected to be made over the next five years are approximately:

2010	$ 86,765
2011	44,289
2012	45,738
2013	47,235
2014	32,345

On March 25, 2008, the Province of Ontario introduced a bill which, if passed, would amend the *Ontario Lottery and Gaming Corporation Act, 1999*, to require the Corporation to finance certain of its capital expenditures with debt obtained from the Ontario Financing Authority. The approval of the Minister of Energy and Infrastructure and the Minister of Finance is required for the Corporation to borrow funds for major capital expenditures. Although the bill has not yet passed, the Corporation has operated under the spirit of the proposed legislation since the beginning of the fiscal year.

11. Financial risk management and financial instruments

a. Overview

The Corporation has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. This note presents information about the Corporation's exposure to each of the above risks and the Corporation's objectives, policies and processes for measuring and managing these risks.

b. Credit risk

Credit risk is the risk that the Corporation will suffer a financial loss due to a third party failing to meet its financial or contractual obligations with the Corporation. The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of accounts receivable, loans receivable and liquid investments.

Accounts receivable include credit provided to retailers of lottery products, bingo service providers and patrons of resort casinos. Loans receivable consist of loans to racetrack operators. The Corporation performs ongoing credit evaluations of retailers, bingo service providers, patrons and racetrack operators and maintains reserves for potential credit losses on both accounts receivable and loans receivable balances. The carrying amount of these financial assets represents the maximum credit exposure.

The amounts disclosed in the consolidated balance sheet are net of allowances for doubtful accounts, which consist of a specific provision that relates to individually significant exposures, estimated by management based on prior experience and their assessment of the current economic environment. The Corporation establishes an allowance for doubtful accounts that represents its estimate of potential credit losses but historically has not experienced any significant losses. As at March 31, 2009, the Corporation had an allowance for doubtful accounts of $11,144,000 (2008 - $5,937,000), which represented approximately 10.3 per cent (2008 - 4.6 per cent) of the Corporation's consolidated accounts receivable and loans receivable. The Corporation believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk.

The Corporation limits its exposure to credit risk by investing only in short-term debt securities with high credit ratings and minimal market risk. The Corporation has a formal policy in place for short-term investments, which provides direction for management to minimize risk. All investments held by the Corporation are low risk and have a term to maturity of less than 90 days, and as a result the risk is considered minimal.

c. Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without jeopardizing the Corporation's revenue commitment to the Province of Ontario. The Corporation currently settles its financial obligations using cash provided by operations. As discussed in Note 3, the Corporation has established reserves at the resort casinos in accordance with their respective operating agreements, or other terms as otherwise agreed. In addition, all investments held by the Corporation are low risk and have a term to maturity of less than 90 days further reducing liquidity risk.

The Corporation manages its liquidity risk by performing regular reviews of gross profit and cash flows from operations and continuously monitoring the forecast against future liquidity needs. Given the Corporation's unique line of business, which historically has generated positive cash flows, liquidity risk is of minimal concern.

The contractual maturities of the financial liabilities are as follows:

	Carrying amount	Contractual cash flows	< 1 year	1 - 2 years	2 - 5 years	> 5 years
Accounts payable and accrued liabilities	$ 342,200	$ 342,200	$ 342,200	$ –	$ –	$ –
Due to operators	44,464	44,464	44,464	–	–	–
Due to Chippewas of Mnjikaning	1,675	1,675	1,675	–	–	–
Due to Government of Canada	5,376	5,376	5,376	–	–	–
Due to First Nations	176,249	176,249	–	–	176,249	–
Long-term debt	256,372	256,372	86,765	44,289	125,318	–

d. Market risk

Market risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of interest rate risk, foreign currency risk and other market price risk.

i. Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Corporation has financial assets and liabilities that potentially expose it to interest rate risk.

The Corporation is subject to interest rate risk on its cash and cash equivalents, including short-term investments with maturity dates of less than 90 days, loans receivable and long-term debt.

Loans receivable consist of loans to racetrack operators and interest earned on these loans is tied to changes in the prime interest rate. The interest rate risk is limited to the interest earned on the assets and the underlying value of the asset is not at risk due to fluctuations in interest rates.

Long-term debt currently consists of two loan agreements entered into with the Ontario Financing Authority.

These term loan agreements have a fixed interest rate for the entire term and are currently subject to limited interest rate risk.

The impact of fluctuations in interest rates is not significant and accordingly, a sensitivity analysis of the impact of fluctuations in interest rates on net income has not been provided.

ii. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Corporation is exposed to foreign currency risk by settling certain obligations in foreign currencies (primarily U.S. dollars) and by holding bank accounts and investments in U.S. dollars.

The majority of the Corporation's suppliers and patrons are based in Canada and, therefore, transact in Canadian dollars (CAD). Some suppliers and patrons are based outside of Canada. The suppliers located outside of Canada typically transact in U.S. dollars (USD). The Corporation's border properties attract U.S. players who are required to exchange their U.S. currency to Canadian currency prior to play. The Corporation exchanges U.S. currency using the daily market exchange rate, and utilizes both a "buy" and "sell" rate. The Corporation holds U.S. dollar cash and bank accounts for the purposes of transacting in U.S. currency with patrons, as well as paying its U.S.-based suppliers. The balances held in U.S. dollars are closely monitored to ensure future U.S. dollar requirements are met. As a result, there is some exposure to foreign currency fluctuations and the Corporation's foreign exchange gain for the year ended March 31, 2009, was $17,762,000 (2008 - $11,724,000).

The Corporation does not enter into financial instruments for trading or speculative purposes.

The Corporation's exposure to currency risk is as follows, based on carrying amounts:

	2009 U.S. dollars	2008 U.S. dollars
Cash and cash equivalents	**$ 11,327**	$ 27,123
Accounts payable and accrued liabilities	**(1,207)**	(1,046)
Net exposure	**$ 10,120**	$ 26,077

All USD balances are shown in CAD equivalents.

Sensitivity analysis

A ten per cent increase in USD at March 31, 2009, would have increased net income by $1,012,000 CAD (2008 - $2,608,000). A ten per cent decrease in the USD at March 31, 2009, would have had the equal, but opposite, effect. This analysis assumes that all other variables, including interest rates, remain constant.

iii. Other market price risk

The Corporation offers sports-based lottery products in the marketplace. The Corporation manages risks associated with these products by setting odds for each event within a short time frame before the actual event, by establishing sales liability thresholds by sport, by providing credit management controls, by posting conditions and prize structure statements on www.olg.ca, and by limiting the aggregate amount of prizes that may be won on any given day for all sports-based products. The Corporation also has the authority to suppress sales of any game at any time when liability risk is a concern.

iv. Fair values versus carrying amounts

The Corporation has determined the fair value of its financial instruments as follows:

The carrying amounts in the consolidated balance sheet of cash and cash equivalents, accounts receivable, restricted cash, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to Government of Canada and due to First Nations approximate fair values because of the short-term nature of these financial instruments.

Loans receivable are carried at amortized cost using the effective interest method. The carrying value of loans receivable approximates the fair value.

The fair value of the Corporation's long-term debt is not determinable given its related party nature.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

12. Capital risk management

The capital structure of the Corporation consists of cash and cash equivalents, long-term debt and equity, comprised of retained earnings, contributed surplus and reserves.

The Corporation's objectives in managing capital are to ensure sufficient resources are available for it to continue to fund future development and growth of its operations and to provide returns to the Province of Ontario.

The Board of Directors is responsible for the oversight of management including its policies related to financial and risk management issues. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The operating agreements require the resort casinos to establish reserve funds, as described in Note 3. The Corporation is not subject to any externally imposed capital requirements.

13. Commitments

a. Obligations under operating leases

The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately:

2010	$	21,233
2011		13,299
2012		5,833
2013		811
2014		582
		41,758
Thereafter		6,685
	$	48,443

b. Suppliers

The Corporation has computer hardware maintenance agreements with future payments of approximately:

2010	$	19,978
2011		12,942
2012		11,684
2013		11,316
2014		2,721
	$	58,641

c. Caesars Windsor

In connection with the terms of an agreement between Caesars Windsor and the City of Windsor, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years with payments commencing May 1, 1998, in the amount of $2,600,000 per annum for the first ten years and $3,000,000 per annum for the last ten years.

On June 19, 2008, the redevelopment project was completed and the newly rebranded Caesars Windsor (formerly Casino Windsor) opened to the public. The redevelopment project included a 22-storey hotel tower, a 5,000-seat entertainment centre and new non-gaming amenities. The Corporation estimated the total cost of the project to be $439,000,000, and as at March 31, 2009, $430,465,000 (2008 - $379,500,000) had been expended.

In conjunction with the redevelopment project, the Corporation entered into a trademark licence agreement with Caesars World, Inc. (Caesars), a wholly owned indirect subsidiary of Harrah's. This agreement provides Caesars Windsor the rights, systems and processes for the use of the Caesars' brand, including Total Rewards, the Caesars' customer loyalty program. The Corporation estimated the total cost of the rebranding project to be $40,700,000, and as at March 31, 2009, $38,569,000 (2008 - $36,772,000) had been expended.

The Corporation is committed to the design, construction and commissioning of the Energy Centre on Caesars Windsor property with total costs currently estimated to be $81,000,000. As at March 31, 2009, $75,953,000 (2008 - $50,555,000) has been expended.

d. Niagara Fallsview Casino Resort

In connection with the terms of an agreement between Fallsview and the City of Niagara Falls (the City), the Corporation agreed to provide the City with payments commencing December 7, 2000, in the amount of $2,600,000 per annum for the first ten years, $3,000,000 per annum for the next ten years and then $3,000,000 per annum thereafter, adjusted for Consumer Price Index as defined in the agreement.

e. Casinos and Slots at Racetracks

The Corporation is committed to the establishment of an additional Slots at Racetrack operation in eastern Ontario at an estimated cost of $18,940,000 and the expansion of two existing Slots at Racetrack operations in the Province at a total estimated cost of $66,309,000, of which $7,371,000 has been expended to date. In addition, the Corporation has committed to the construction of a water treatment facility at a Casino located in eastern Ontario. The Corporation's share of these construction costs is estimated at $5,000,000, of which $420,000 has been expended to date.

f. Mississaugas of Scugog Island First Nation (MSIFN)

The Corporation and the MSIFN have agreed on a development plan for a new casino facility, on MSIFN reserve lands, at an estimated cost of $165,000,000. The new development will replace the existing tent structure. On February 18, 2009, the Corporation's Board of Directors approved the expenditure of $83,800,000 as the Corporation's share of the project costs. The approval was conditional on MSIFN obtaining a commitment for financing for their portion of the project costs of $81,200,000. The Corporation is currently awaiting approval of its funding through the Ontario Financing Authority and MSIFN is completing discussions with various financial institutions for its funding. Construction is anticipated to commence in the summer of 2009 with completion and opening in the summer of 2011.

Concurrent with the development, the Corporation, MSIFN and the casino operator will be entering into a number of legal agreements that will govern the construction of the facility and the operation of the casino going forward. These agreements include a development agreement, an operating agreement, a support agreement and sublicense agreement.

14. Contingencies

a. In November 2003, the Chippewas of Mnjikaning First Nation (the Plaintiff) delivered a notice of claim against the Corporation, Her Majesty the Queen in Right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all property, plant and equipment purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of property, plant and equipment be reimbursed. The Plaintiff claims damages in the amount of $21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all property, plant and equipment purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. If the Plaintiff was successful in this claim, reimbursement of retail sales tax that has been paid or accrued in respect of purchases of property, plant and equipment would be made by

Her Majesty the Queen in Right of Ontario, not by the Corporation. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

b. The Corporation has signed four Bingo Centre Service Provider Agreements (Service Providers) for Bingo Revitalization Project pilot site operations in Barrie, Peterborough, Kingston and Sudbury, Ontario. The contracts provide that, in the event of notification of termination of the Bingo Revitalization Project pilot by the Corporation, or if the Service Providers and the Corporation mutually agree to not renew or extend the Agreement, the Corporation will be required to pay the Service Providers an amount not to exceed $3,013,000 in respect of the Service Providers' capital investments in the Bingo Centres. No events have taken place to indicate that the pilot sites will not continue, and as such, no amounts have been accrued in these consolidated financial statements.

c. On April 27, 2007, the Corporation and the Interprovincial Lottery Corporation were served with a statement of claim, related to a class action for general damages of $1,000,000,000 and punitive damages of $100,000,000. The statement of claim alleges the Corporation was negligent in the operation and management of its lottery business and that it breached fiduciary and other duties. The action is at a very early stage, no class has been certified by the Courts, and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

d. On June 10, 2008, the Corporation was served with a statement of claim, related to a class action for general damages and punitive damages totaling $3,500,000,000. The statement of claim alleges that the Corporation was negligent in its duty of care to prohibit self-excluded patrons from gaming at the Corporation's gaming sites. The action is at a very early stage, no class has been certified by the Courts, and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

e. The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on its consolidated financial statements. Estimates, where appropriate, have been included in these consolidated financial statements; however, additional settlements, if any, concerning these contingencies will be accounted for as a charge to the consolidated statement of income and other comprehensive income in the period in which the settlement occurs.

f. On March 17, 2009, the Corporation was served with a statement of claim from a patron, related to a slot machine malfunction. The claim is for prize payment, general damages, aggravated damages and punitive damages totaling $45,900,000. The statement of claim alleges the Corporation refused to pay the prize won by the patron due to a slot machine malfunction. The action is at a very early stage and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements. The Corporation may have a claim for indemnity and/or contribution against the manufacturer of the machine in question to the extent it is found liable to the plaintiff.

g. On May 20, 2009, the Corporation was served with a statement of claim, related to a class action for general damages and punitive damages for an amount yet to be determined. The statement of claim alleges that the Corporation was in breach of contract by not discontinuing the sales of certain INSTANT lottery game tickets once the top prize was won. The action is at a very early stage, no class has been certified by the Courts, and the Corporation intends to vigorously defend itself. The outcome is undeterminable at this time and no amounts have been accrued in these consolidated financial statements.

15. Segmented information

The Corporation's reportable operating segments are distinct revenue generating business units that offer different products and services. The Corporation has three reportable operating segments: lotteries and bingo, resort casinos, and casinos and slots at racetracks. Lotteries and bingo derive their revenue from the sale of lottery and bingo products, which includes online, instant and sports products. Resort casinos are full-service casinos which offer patrons a variety of amenities in addition to slot and table games, including accommodations, entertainment and food and beverage services. The casinos and slots at racetracks are scaled-down gaming facilities. The casinos offer slot and table games, as well as food and beverage services. The slots at racetracks are located at racetrack sites and include only slot games; however, some locations offer food and beverages.

2009

	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$ 2,947,616	$ -	$ -	$ 2,947,616
Slots	-	1,033,527	2,059,273	3,092,800
Tables	-	403,526	50,415	453,941
Non-gaming	-	270,982	28,172	299,154
	2,947,616	1,708,035	2,137,860	6,793,511
Less promotional allowances	-	299,222	67,301	366,523
	2,947,616	1,408,813	2,070,559	6,426,988
Operating expenses				
Non-gaming	-	254,548	30,571	285,119
Gaming and lottery operations	130,575	291,118	279,490	701,183
Lottery prizes	1,655,987	-	-	1,655,987
Commissions	215,975	-	418,936	634,911
Marketing and promotion	55,014	161,617	81,473	298,104
Operators' fees (Note 9b)	-	64,822	5,024	69,846
Amortization	31,899	146,301	85,633	263,833
General and administration (Note 17)	41,669	102,286	72,863	216,818
Facilities	8,108	154,590	80,861	243,559
Win contribution (Note 18)	-	287,449	18,188	305,637
Payments to Government of Canada (Note 19)	53,505	40,221	31,659	125,385
	2,192,732	1,502,952	1,104,698	4,800,382
Income before the undernoted	754,884	(94,139)	965,861	1,626,606
Interest and other income	3,085	18,833	15,877	37,795
Interest on long-term debt	(100)	(9,216)	-	(9,316)
Foreign exchange gain	667	14,341	2,754	17,762
	3,652	23,958	18,631	46,241
Net income (loss)	$ 758,536	$ (70,181)	$ 984,492	$ 1,672,847

2008

	Lotteries and Bingo	Resort Casinos	Casinos and Slots at Racetracks	Total
Revenues				
Lotteries and bingo	$ 2,773,125	$ -	$ -	$ 2,773,125
Slots	-	1,025,188	2,040,137	3,065,325
Tables	-	401,380	54,593	455,973
Non-gaming	-	245,087	28,874	273,961
	2,773,125	1,671,655	2,123,604	6,568,384
Less promotional allowances	-	276,336	72,773	349,109
	2,773,125	1,395,319	2,050,831	6,219,275
Operating expenses				
Non-gaming	-	236,352	31,613	267,965
Gaming and lottery operations	122,090	307,733	278,623	708,446
Lottery prizes	1,566,091	-	-	1,566,091
Commissions	203,254	-	413,431	616,685
Marketing and promotion	58,619	149,414	76,108	284,141
Operators' fees (Note 9b)	-	63,145	4,929	68,074
Amortization	33,211	137,679	88,617	259,507
General and administration (Note 17)	42,394	104,237	69,224	215,855
Facilities	8,129	145,150	81,424	234,703
Win contribution (Note 18)	-	285,304	17,939	303,243
Payments to Government of Canada (Note 19)	56,851	41,732	34,212	132,795
	2,090,639	1,470,746	1,096,120	4,657,505
Income before the undernoted	682,486	(75,427)	954,711	1,561,770
Interest and other income	5,678	23,051	19,412	48,141
Interest on long-term debt	(976)	(13,228)	-	(14,204)
Foreign exchange gain	41	9,705	1,978	11,724
	4,743	19,528	21,390	45,661
Net income (loss)	$ 687,229	$ (55,899)	$ 976,101	$ 1,607,431

16. Post-employment plans

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included in the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund, and accordingly the Corporation accounted for these post-employment benefits as defined contribution pension plans and has recorded no additional liability for these future costs. The Corporation's contribution and pension expense during the year was $18,332,000 (2008 - $17,926,000).

The operators of the resort casinos and the Great Blue Heron Slot Machine Facility have created defined contribution pension plans for their employees. The pension expense for the year amounted to $21,078,000 (2008 - $22,452,000).

17. Future benefit costs

As a Schedule 2 employer under the *Workplace Safety and Insurance Act, 1997* (Act), the Corporation is individually responsible for the full cost of accident claims filed by its workers. The Workplace Safety and Insurance Board (WSIB) maintains full authority over the claims entitlement process, administers and processes claims payments on the Corporation's behalf. CICA Handbook Section 3461, Employee Future Benefits, requires that WSIB liabilities for self-insured employers be reported on the financial statements.

In fiscal 2009, the cost of claim payments was $3,375,000 (2008 - $3,586,000) and is included in General and Administration expenses in the consolidated statement of income and other comprehensive income. The accrued future benefit costs as at March 31, 2009 is $17,074,000 (2008 - $28,339,000) of which $1,365,000 (2008 - $2,267,000) is classified as a current liability. The accrued benefit costs are based on actuarial assumptions.

The operators of the resort casinos and the Great Blue Heron Slot Machine Facility are Schedule 1 employers under the Act and are not subject to the financial reporting requirements of self-insured employers.

18. Win contribution

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from resort casinos and the Great Blue Heron Charity Casino Slot Machine Facility.

19. Payments to Government of Canada

The Corporation made the following payments to the Government of Canada:

	2009	2008
Payments on behalf of the Province of Ontario	$ 25,482	$ 24,921
Goods and Services Tax	99,903	107,874
	$ 125,385	$ 132,795

As at March 31, 2009, the amount due to the Government of Canada was $5,376,000 (2008 - $8,534,000).

a. Payments on behalf of the Province of Ontario

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b. Goods and Services Tax

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 10 per cent (12 per cent prior to January 1, 2008) tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similarly to any other GST registrant in Canada.

On March 26, 2009, the Province of Ontario announced plans to combine its provincial sales tax (PST) with the Federal Government's GST to create a single, harmonized sales tax (HST) with a 13 per cent rate (5 per cent GST plus 8 per cent PST), effective July 1, 2010. The Corporation is currently assessing the impact of this new legislation on its operations.

20. Comparative amounts

Certain prior year amounts have been reclassified to conform with current year consolidated financial statement presentation.

Management Discussion and Analysis

March 31, 2009

Canadian securities regulations require public companies to include a discussion of operating results in their annual report, along with the annual financial statements. As a provincial government enterprise, Ontario Lottery and Gaming Corporation (OLG or the Corporation) is not subject to these regulations. However, this discussion has been included to increase the reader's understanding of the operations of OLG.

This Management Discussion and Analysis (MD&A) reviews the financial position and results of the operations of OLG for the year ended March 31, 2009, and should be read in conjunction with the Corporation's audited consolidated financial statements. OLG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars. This MD&A is dated June 16, 2009.

Consolidated gross revenue for the year ended March 31, 2009, was $6.4 billion, an increase of $208 million, or 3.3 per cent over the previous year, primarily due to higher lottery revenue. Net income for the year was $1.7 billion, $65 million, or 4.1 per cent higher than the previous year. The increase was due to higher revenue, partially offset by higher operating costs, particularly lottery prizes, commissions and non-gaming costs. OLG's payment to the Province of Ontario, which is derived from net income, is the largest contribution of non-tax revenue for the Province and is used by the Government to invest in health care and other priority programs, and to support Ontario's elite amateur athletes and thousands of charities through the Ontario Trillium Foundation.

OLG's operations are organized under three business divisions:

1. Lotteries and Bingo, which is responsible for online and INSTANT lottery games, four electronic bingo pilot sites and Big LINK Bingo.
2. Casinos and Slots, which is responsible for the operation of 23 gaming sites, including five OLG casinos, the slots facility at Great Blue Heron Charity Casino and 17 slots at racetrack operations.
3. Resort Casinos, which oversees the operations of four casinos in Ontario.

A detailed review of the performance of each business division is provided below.

1. Business Segment Reports

A. Lotteries and Bingo

(in $ thousands)

	Fiscal 2009	Fiscal 2008	Variance $ favourable (unfavourable)	Variance % favourable (unfavourable)
Revenues				
Gaming revenues	**2,947,616**	2,773,125	174,491	6%
	2,947,616	2,773,125	174,491	6%
Operating expenses				
Gaming and lottery operations	**130,575**	122,090	(8,485)	(7%)
Lottery prizes	**1,655,987**	1,566,091	(89,896)	(6%)
Commissions	**215,975**	203,254	(12,721)	(6%)
Marketing and promotion	**55,014**	58,619	3,605	6%
Amortization	**31,899**	33,211	1,312	4%
General and administration	**41,669**	42,394	725	2%
Facilities	**8,108**	8,129	21	0%
Payments to Government of Canada	**53,505**	56,851	3,346	6%
	2,192,732	2,090,639	(102,093)	(5%)
Income before the undernoted	**754,884**	682,486	72,398	11%
Interest and other income	**3,085**	5,678	(2,593)	(46%)
Interest on long-term debt	**(100)**	(976)	876	90%
Foreign exchange gain	**667**	41	626	1527%
	3,652	4,743	(1,091)	(23%)
Net income	**758,536**	687,229	71,307	10%

A1. Lotteries and Bingo Revenue

Lotteries and bingo revenue for the year was $2.95 billion, an increase of $174 million, or 6.3 per cent, over the previous year. Lottery revenue was $2.9 billion, an increase of 6.6 per cent over the previous year, primarily due to higher sales for online and INSTANT games. Bingo revenue was $50 million, down $6 million, or 10.5 per cent lower than the previous year, primarily due to lower sales for Big LINK Bingo, which were down $4 million, or 40 per cent, a result of fewer bingo halls offering this product.

Lotteries and Bingo Sales and Prizes by Game

Product Groupings	**Number of Games 2009**	Number of Games 2008	**Sales ($ Millions) 2009**	Sales ($ Millions) 2008	**Percentage of Total Sales 2009**	Percentage of Total Sales 2008	**Prizes ($ Millions) 2009**	Prizes ($ Millions) 2008
Online Games	**11**	12	**1,749.3**	1,671.6	**59.3%**	60.3%	**879.5**	865.0
Sports Games	**6**	6	**265.7**	253.5	**9.0%**	9.1%	**169.7**	157.9
Instant Games	**74**	84	**883.1**	792.6	**30.0%**	28.6%	**573.0**	505.4
Bingo Games	**3**	3	**49.5**	55.3	**1.7%**	2.0%	**33.8**	37.8
Totals	**94**	105	**2,947.6**	2,773.0	**100.0%**	100.0%	**1,656.0**	1,566.1

The number of lottery games offered by OLG decreased this year from last year due to the implementation of new strategies, which included increasing the print quantities for INSTANT brands, which in turn

extended the life of each game on the market. The most successful INSTANT products were in the $3, $5 and $10 categories. INSTANT games contributed $90 million to the overall year-over-year variance, a result of an increase in the player base for various products. Online games contributed $78 million to the favourable variance, mainly due to higher jackpots, which in turn resulted in increased sales for LOTTO 6/49, LOTTO SUPER 7, ENCORE and LOTTARIO during fiscal 2009.

Fiscal 2009 lottery sales growth exceeded that of all other Canadian lotteries. This increase includes a record year for INSTANT games, which had total sales of $883 million, up from $793 million the previous year. LOTTO 6/49 had its most successful year ever, with sales of $905 million. ENCORE sales reached the highest level in 20 years, at $217 million. LOTTARIO sales were the highest in more than 10 years, at $48 million. Sports lottery sales were also the highest ever, at $266 million.

A2. Lotteries and Bingo Net Income

Net income from Lotteries and Bingo was $759 million, $71 million or 10.4 per cent more than the previous year, the result of higher sales. Lotteries and Bingo prize expenses increased by $90 million, to $1.7 billion, also the result of higher sales. Lottery prize expenses vary according to the mix of product revenue and jackpot levels achieved. Additional prize funding required for guaranteed jackpot bonus sequences for LOTTO 6/49 was $32 million this year, versus $62 million in fiscal 2008.

Operating expenses (as outlined in the table presented on page 40), excluding lottery prizes, increased over the previous year. Higher lottery and gaming operations costs and commissions were partly offset by decreases in marketing and promotion costs, amortization costs and payments to the Government of Canada. Gaming and lottery operations costs increased by $8 million, due in part to Alcohol and Gaming Commission of Ontario (AGCO) regulatory costs. The AGCO commenced its regulatory function over lottery operations during fiscal 2008, and as a result, fiscal 2009 was the first full year of such additional regulatory costs. Furthermore, commissions increased by $13 million as a result of higher sales. Marketing and promotion costs decreased by $4 million from the prior year as a result of decreased spending for public awareness campaigns, as the 'Sign Your Ticket' and other campaigns were launched during fiscal 2008, in conjunction with the Prize Integrity Program. Amortization costs decreased as some assets reached the end of their useful lives during fiscal 2009. Payments to the Government of Canada decreased by $3 million due to a reduction in the GST rate to five per cent in January 2008 from six per cent.

A3. Lotteries and Bingo Financial Key Performance Indicators

The Corporation continues to focus on maximizing operational efficiencies and profits. In achieving these ends, financial key performance indicators (KPIs) are useful tools for assessing critical expenses relative to revenue.

Below are the Lotteries and Bingo financial KPIs for fiscal 2009 compared to fiscal 2008.

	Fiscal 2009	Fiscal 2008
Adjusted EBIDA margin*	**61.0%**	59.4%
Marketing as a percentage of gaming revenue**	**4.0%**	4.1%
Payroll as a percentage of total revenue***	**2.3%**	2.3%

* The Adjusted EBIDA margin (please refer to Section 6 - Disclosures for Adjusted EBIDA Calculation) represents earnings before interest expense, depreciation and amortization as a percentage of total revenue. EBIDA margin is a common measure used in the gaming industry and is useful to management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows.

** Marketing expenses include promotions, advertising, corporate marketing and the applicable GST expense, but exclude payroll costs. These expenses are divided by gaming revenue. Gaming revenue includes revenue from lottery and bingo games, but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue. (Please refer to Section 6 - Disclosures for Reconciliation of Total Revenue)

Both marketing and payroll indicators represent key cost drivers of the Corporation.

The adjusted EBIDA margin for Lotteries and Bingo for fiscal 2009 increased compared to last year, due to higher revenues. Marketing expenditure as a percentage of gaming revenue for Lotteries and Bingo was down slightly from last year, due to lower proportionate spending. Payroll as a percentage of total revenue for Lotteries and Bingo was unchanged from last year as both revenue and payroll increased proportionately. Payroll costs were higher in fiscal 2009 as a result of the increase in personnel required to meet the prize integrity mandate. While some of the hiring occurred in fiscal 2008, the full twelve-month cost of the new complement was realized in the current year.

A4. Lotteries and Bingo Trends

While lottery sales are increasing, the number of customers playing lottery games is not keeping pace with the growth in the population. Over the past eight years, the Ontario adult population grew by 16 per cent, to 10.1 million, whereas the population of current lottery players, defined as those who play at least once every two months, declined by 1 per cent, to 5.2 million players. The implications of this decline are discussed below in section A5.

A5. Lotteries and Bingo Risks

In the year following the implementation of OLG's ambitious Prize Integrity Program, the public's perception that "lotteries in Ontario are run openly and honestly" improved to 68 per cent in March 2009, from an all-time low of 51 per cent in March 2007. While public confidence began to rebound, the Corporation continued to receive negative media attention, partly a result of the public release of a report by Deloitte, whom OLG had commissioned to review 13 years of lottery transactional data. A small number of game-related issues also prompted incidents of negative media.

While the organization continues to solidify the customer-protection improvements it has made over the past two years, some of these improvements are having the unintended consequence of negatively impacting some customer experiences. In the Prize Centre, for example, new customer-protection measures and added due diligence have extended the average prize-payment visit for a major prize from one hour to two hours. The Corporation is taking steps to address customer service issues with the enhanced player protection environment.

In January 2009, OLG was impacted by the global economic downturn through the bankruptcy of InfoPlace, the operator of 135 lottery kiosks in shopping malls, Wal-Mart stores and Home Depot stores across Ontario, which resulted in the immediate closure of those lottery sales outlets. This represents a risk to revenue, related to the Corporation's ability to transfer the sales to other retail locations. OLG is actively engaged with the trustee in bankruptcy and lottery operators to assess the reintroduction of lottery offerings to many of these locations in fiscal 2010.

The number of players of OLG lottery games is shrinking and is not keeping pace with Ontario's population growth. Over the past eight years, the Ontario adult population grew by 16 per cent to 10.1 million, whereas the population of current lottery players, defined as those who play at least once every two months, declined by 1 per cent to 5.2 million. At the same time, however, lottery sales have been increasing, which indicates that OLG lottery revenue growth is from a smaller base of players. This development of higher sales from a shrinking player base is not sustainable from both a responsible gaming perspective and the long-term viability of the business. OLG is working to broaden its player base to ensure it includes the younger generation of adults as well as new Canadians.

In total, Bingo represents 1.7% of the total Lottery and Bingo revenue. As bingo halls close, fewer halls are participating in Big LINK Bingo and the resulting declining revenues do not support fixed-cost initiatives. OLG continues to address this ongoing revenue risk by working with the industry to acquire

more participating halls through the introduction of game changes, development of new linked-bingo concepts and consideration of adjustments to the stakeholders' commission structures. The eBingo initiative has proven to be a successful tool in slowing the decline of bingo, but it has not stopped the decline. While OLG's four eBingo halls outperform those bingo halls using only the traditional paper delivery, revenues are still declining. OLG continues to work with the industry to introduce new electronic games that would be suitable for the community-based social-gaming environment.

B. OLG Casinos and Slots at Racetracks

(in $ thousands)

	Fiscal 2009	Fiscal 2008	Variance $ favourable (unfavourable)	Variance % favourable (unfavourable)
Revenues				
Gaming revenues	**2,109,688**	2,094,730	14,958	1%
Non-gaming revenues	**28,172**	28,874	(702)	(2%)
	2,137,860	2,123,604	14,256	1%
Less: promotional allowance	**67,301**	72,773	5,472	8%
	2,070,559	2,050,831	19,728	1%
Operating Expenses				
Non-gaming	**30,571**	31,613	1,042	3%
Gaming and lottery operations	**279,490**	278,623	(867)	0%
Commissions	**418,936**	413,431	(5,505)	(1%)
Marketing and promotion	**81,473**	76,108	(5,365)	(7%)
Operators' fees	**5,024**	4,929	(95)	(2%)
Amortization	**85,633**	88,617	2,984	3%
General and administration	**72,863**	69,224	(3,639)	(5%)
Facilities	**80,861**	81,424	563	1%
Win contribution	**18,188**	17,939	(249)	(1%)
Payments to Government of Canada	**31,659**	34,212	2,553	7%
	1,104,698	1,096,120	(8,578)	(1%)
Income before the undernoted	**965,861**	954,711	11,150	1%
Interest and other income	**15,877**	19,412	(3,535)	(18%)
Foreign exchange gain	**2,754**	1,978	776	39%
	18,631	21,390	(2,759)	(13%)
Net income	**984,492**	976,101	8,391	1%

B1. OLG Casinos and Slots at Racetracks Revenues

Revenue for OLG casinos and slots at racetracks, including the slot operations at the Great Blue Heron Charity Casino, was $2.1 billion, an increase of $20 million over the previous year.

- OLG Slots at Rideau Carleton Raceway was the largest contributor, with revenues of $142 million, an increase of $12 million over last year, the result of extended hours of operation.
- OLG Slots at Woodbine Racetrack's $621 million in revenue was an $11 million increase over last year, due to the Slots Refresh initiative (which includes the replacement of obsolete and underperforming slot machines) and additional slots in June 2007 (73 machines were added).

- Revenue at OLG Slots at Grand River was up $5 million, due to extended hours.
- OLG Slots at Flamboro Downs also experienced a $5 million increase in revenue, largely due to patron migration resulting from the nine-week-long labour disruption at OLG Casino Brantford, which experienced an $8 million decline in revenue compared to the previous year.
- A labour disruption at OLG Slots at Sudbury Downs contributed to the $6 million revenue decrease at that facility.
- Revenue was also down at most border properties, including OLG Slots at Fort Erie Race Track, Hiawatha Horse Park, Windsor Raceway and OLG Casino Point Edward. The decline can be attributed to increased competition from U.S. properties, the decline in the American economy, and a strong Canadian dollar in the first half of the fiscal year.

In fiscal 2009, communities hosting OLG Casinos and Slots facilities received a commission of $79 million, a marginal increase from the prior year. This commission is calculated on gross slot machine revenue, and represents funds that can be used at the municipalities' discretion. Racetrack siteholders and their horse people received $340 million, an increase of $5 million over the previous year. Payments to racetracks and horse people are a major economic stimulus for the agriculture industry in Ontario, with spin-off benefits for farmers who stable and provide care for horses, and who supply feed.

The following tables highlight some of the key economic impacts of the various OLG Casinos and Slots facilities. In particular, the tables indicate the number of employees working for OLG in communities across the Province and their annual payroll. These payroll dollars circulate back into the local economies along with the commissions paid to the local municipalities, racetracks and horse people.

OLG Casinos – Economic Impact of Operations as at March 31, 2009

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Revenue to Municipality* ($ thousands)	Number of Patrons (thousands)	Number of Slots	Gaming Tables
OLG Casino Brantford	Nov 17, 1999	883	36,051	3,035	1,177	517	55
Great Blue Heron Slots Facility	May 3, 2000	***	***	****	1,435**	545	*****
OLG Casino Point Edward	Apr 18, 2000	490	22,022	1,864	570	485	30
OLG Casino Sault Ste. Marie	May 19, 1999	338	15,447	1,521	716	446	13
OLG Casino Thousand Islands	Jun 20, 2002	434	19,328	3,459	902	516	26
OLG Casino Thunder Bay	Aug 28, 2000	353	16,565	2,428	927	452	15
Totals		2,498	109,412	12,307	5,727	2,961	139

Note: The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Casino Austria, Fantasy Gaming and Sonco Gaming. The OLG is responsible for the management of the slot facility only. The Great Blue Heron Charity Casino is a true Aboriginal casino and a major First Nations initiative. The Mississaugas of Scugog Island First Nation Indian Band (#34) formed the Baagwating Community Association, a non-profit charitable association, to conduct and manage the table game operations.
The Ontario Government receives 20% of gaming revenue and 100% of net profits from the slots facility at Great Blue Heron Charity Casino.

* 5% of revenue from slot machines up to 450 machines and 2% of revenue from slots over 450.
** Great Blue Heron patron figures are based on entire facility.
*** 243 employees of The Great Blue Heron Gaming Company work in the slot facility. Annual payroll is $12.4 million.
**** As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas receive 5% of the revenue from the slot machines, totalling $4.6 million in fiscal 2009.
***** While Great Blue Heron Charity Casino offers table games, OLG management and reporting is limited to the slot facility.

OLG Slots at Racetracks – Economic Impact of Operations as of March 31, 2009

Facility	Opening Date	Number of Employees	Annual Payroll ($ thousands)	Number of Patrons (thousands)	Number of Slots	Revenue to Tracks* ($ thousands)	Revenue to Horse People* ($ thousands)	Revenue to Municipality* ($ thousands)
Ajax Downs	Feb 28, 2006	250	10,490	1,113	256	10,407	8,808	5,204
Clinton Raceway	Aug 24, 2000	83	3,871	174	108	1,315	1,315	658
Dresden Raceway	Apr 18, 2001	88	3,920	179	114	1,361	1,361	680
Flamboro Downs	Oct 11, 2000	236	11,102	1,350	803	12,891	12,891	4,748
Fort Erie Race Track	Sep 9, 1999	252	13,358	869	1,089	4,007	4,007	1,295
Georgian Downs	Nov 27, 2001	207	9,336	1,255	455	10,026	10,026	4,980
Grand River Raceway	Dec 4, 2003	146	6,310	557	200	4,450	4,450	2,225
Hanover Raceway	Feb 19, 2001	86	4,143	299	129	2,167	2,167	1,084
Hiawatha Horse Park	May 8, 1999	146	7,580	591	452	3,194	3,194	1,594
Kawartha Downs	Nov 22, 1999	175	8,087	806	450	7,005	7,005	3,502
Mohawk Racetrack	Aug 10, 1999	231	11,405	1,136	863	16,141	16,141	5,757
Rideau Carleton Raceway	Feb 16, 2000	280	13,548	1,722	1,250	14,194	14,194	4,372
Sudbury Downs	Nov 26, 1999	139	7,009	457	351	4,185	4,185	2,092
Western Fair Raceway	Sep 28, 1999	310	13,617	1,107	750	11,033	11,033	4,192
Windsor Raceway	Dec 16, 1998	220	10,884	623	750	4,048	4,048	1,538
Woodbine Racetrack	Mar 27, 2000	676	31,243	4,521	2,009	62,127	62,127	16,601
Woodstock Raceway	Jun 20, 2001	89	4,118	301	178	2,420	2,420	1,210
Totals		3,614	170,021	17,060	10,207	170,971	169,372	61,731

* Tracks and horse people each receive a percentage of revenue from slots as outlined in their respective siteholder agreement; municipalities receive 5% of revenue from slots up to 450 machines and 2% of revenue from slot machines over 450.

B2. OLG Casinos and Slots at Racetracks Net Income

Net income from OLG Casinos and Slots at Racetracks was $1.0 billion, an increase of $8 million, or 0.9 per cent above last year, mainly due to higher revenues, slightly offset by an increase in operating costs. Commissions were $6 million more than last year, a direct result of the higher revenue in fiscal 2009. Marketing and promotion costs and general and administrative costs exceeded the prior year and gaming and lottery operation costs were marginally higher than the prior year. Marketing and promotion costs increased $5 million due in part to higher personnel costs and changes in marketing promotional offers. General and administrative costs increased $4 million as a result of an increase in hardware and software maintenance costs.

B3. OLG Casinos and Slots at Racetracks Financial Key Performance Indicators

Below are the Casinos and Slots at Racetracks financial KPIs for fiscal 2009 compared to fiscal 2008.

	Fiscal 2009	Fiscal 2008
Adjusted EBIDA margin*	**50.9%**	50.7%
Marketing as a percentage of gaming revenue**	**5.9%**	6.0%
Payroll as a percentage of total revenue***	**14.7%**	14.3%

* The Adjusted EBIDA margin (please refer to Section 6 – Disclosures for Adjusted EBIDA Calculation) represents earnings before interest expense, win contribution, depreciation and amortization as a percentage of total revenue. EBIDA margin is a common measure used in the gaming industry and is useful to management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows. OLG adjusts EBIDA, by adding back win contribution, to ensure comparability of profitability margins across divisions and with other gaming organizations.

** Marketing expenses include promotional allowances (including the retail value of accommodation, food and beverage and other goods provided on a complimentary basis to patrons), promotions, advertising, corporate marketing and the applicable GST expense, but exclude payroll costs. These expenses are divided by gaming revenue. Gaming revenue includes revenue from slot and table-gaming operations, but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue. (Please refer to Section 6 - Disclosures for Reconciliation of Total Revenue).

The Adjusted EBIDA margin for Casinos and Slots at Racetracks was slightly above last year's as the increase in revenue was greater than the increase in operating expenses. Marketing expenses as a percentage of gaming revenue for Casinos and Slots at Racetracks were consistent with the previous year. Payroll as a percentage of total revenue was higher due in part to the cost of the employee voluntary exit program introduced in the last quarter of the fiscal year, combined with additional personnel required to support enhanced analytics of operational activities.

B4. OLG Casinos and Slots at Racetracks Trends

As part of OLG's ongoing commitment to responsible gaming, Responsible Gaming Resource Centres were established at 23 OLG Casinos and Slots at Racetracks. These onsite centres, operated by the Responsible Gambling Council, provide responsible gaming information and referral services to local treatment agencies. Further supporting this commitment, OLG also launched a new web-based resource, www.KnowYourLimit.ca, in March 2009. The website offers information on treatment and debunks the myths of gambling. These initiatives follow a multi-jurisdictional trend towards increasing and improving the resources available at gaming facilities to assist patrons and family members with gambling-related addictions.

The Slot Refresh initiative continues to contribute to revenue growth at OLG gaming facilities. In fiscal 2009, 66 new slot machines were added at OLG Slots at Woodstock Raceway and expansion plans were prepared for OLG Slots at Ajax Downs and Georgian Downs.

Significant improvements were made to the Winner's Circle loyalty program as a tiered system of rewards and promotions was introduced for members in October 2008.

Understanding that enhancing the player experience is key to retaining and attracting new players, at the end of fiscal 2009, OLG was:

- Researching the development and acquisition of a new Gaming Management System to enhance the player entertainment experience on the gaming floor,
- Re-imaging existing facilities to incorporate a consistent brand identity into the gaming facilities' physical environments, and
- Implementing a new gaming scheduling system that optimizes staffing levels for servicing customers, based on key volume indicators.

B5. OLG Casinos and Slots at Racetracks Risks

OLG Casinos and Slots at Racetracks face two main challenges: impacts of the global economic downturn and business interruption.

The strength of the Canadian dollar, competition from sites in the U.S. and uncertain U.S. economic conditions continue to challenge our ability to attract and retain U.S. patrons to our border properties. This will be compounded by the implementation of new border-crossing requirements that began in June 2009. It is believed that a material percentage of U.S. customers may not immediately acquire the required border documentation. OLG is addressing this revenue risk through ongoing service and

product enhancements as well as its continued focus on Customer Service Excellence, the cornerstone for maintaining market share in an increasingly competitive market. Despite these mitigation plans, the risk of revenue degradation remains a systemic threat to our border markets.

With rising unemployment figures, the Ontario labour market remains unstable. The most recent statistics peg the unemployment rate at a 15-year high. Softened manufacturing and forestry sectors have impacted local patrons.

From 2008 to 2009, visitation at OLG facilities has decreased, with a higher decline at border sites — 6.4 per cent opposed to 2.5 per cent at OLG non-border sites. While OLG non-border sites experienced an increase of 1.4 per cent in net win revenue, the trend did not extend to OLG border sites, where net win revenue decreased by 3.5 per cent from 2008 to 2009.

Business interruptions comprise both labour and operational disruptions at the site level. To mitigate the risk of labour disruption, the division maintains several employee engagement programs including focus groups and regular engagement surveys. To address potential operational disruptions, business continuity plans have been integrated into all site operations, and onsite re-imaging projects are designed to minimize patron and employee inconvenience.

C. Resort Casinos

(in $ thousands)

	Fiscal 2009	Fiscal 2008	Variance $ favourable (unfavourable)	Variance % favourable (unfavourable)
Revenues				
Gaming revenues	**1,437,053**	1,426,568	10,485	1%
Non-gaming revenues	**270,982**	245,087	25,895	11%
	1,708,035	1,671,655	36,380	2%
Less: promotional allowance	**299,222**	276,336	(22,886)	(8%)
	1,408,813	1,395,319	13,494	1%
Operating Expenses				
Non-gaming	**254,548**	236,352	(18,196)	(8%)
Gaming and lottery operations	**291,118**	307,733	16,615	5%
Marketing and promotion	**161,617**	149,414	(12,203)	(8%)
Operators' fees	**64,822**	63,145	(1,677)	(3%)
Amortization	**146,301**	137,679	(8,622)	(6%)
General and administration	**102,286**	104,237	1,951	2%
Facilities	**154,590**	145,150	(9,440)	(7%)
Win contribution	**287,449**	285,304	(2,145)	(1%)
Payments to Government of Canada	**40,221**	41,732	1,511	4%
	1,502,952	1,470,746	(32,206)	(2%)
Loss before the undernoted	**(94,139)**	(75,427)	(18,712)	(25%)
Interest and other income	**18,833**	23,051	(4,218)	(18%)
Interest on long-term debt	**(9,216)**	(13,228)	4,012	30%
Foreign exchange gain	**14,341**	9,705	4,636	48%
	23,958	19,528	4,430	23%
Net loss	**(70,181)**	(55,899)	(14,282)	(26%)

C1. Resort Casinos Revenue

Total resort casino revenue was $1.4 billion, an increase of $13 million, or 1.0 per cent over the previous year. This marked the first year that Resort Casinos recorded an increase in revenue, after two consecutive years of decline. This increase was in part due to the opening of Caesars Windsor (formerly Casino Windsor) with its additional non-gaming amenities in June 2008.

All three border properties, Casino Niagara, Fallsview Casino (which comprise the Niagara Casinos) and Caesars Windsor, have a large U.S. patron base, and were therefore impacted by increased competition, the decline in the U.S. economy, and a strong Canadian dollar in the first half of the fiscal year.

C2. Resort Casinos Net Income (Net Loss)

In fiscal 2009, Resort Casinos experienced a net loss of $70 million, $14 million greater than last year. Caesars Windsor was the largest contributor to this variance, with a net loss that was $20 million greater than the previous year. However, the additional amenities offered with the opening of the expansion at Caesars Windsor had a positive impact, and resulted in a seven per cent improvement in the last quarter of fiscal 2009 compared to the last quarter in fiscal 2008. Despite the net loss referenced above, Resort Casinos contributed $217 million to the Province, which includes the win contribution generated at the Resort Casinos less the distribution of Casino Rama net income to the First Nations.

The strong Canadian dollar and increased U.S. competition from the Detroit-area casinos were particularly significant factors to the net income of the Niagara Casinos and Caesars Windsor. In the latter part of fiscal 2008, the U.S. dollar dropped to levels not seen in decades, which resulted in a decrease in revenue. However in fiscal 2009, the exchange rate remained stable, near par value, until October 2008 at which time the Canadian dollar weakened significantly, and this trend continued for the remainder of the fiscal year. The year-over-year revenue decline at Casino Rama was attributed to increased competition from within the province, primarily from OLG Slots at Woodbine Racetrack.

Operating expenses increased by $32 million from last year. This was primarily attributed to higher non-gaming and marketing and promotion costs with the opening of the expanded Caesars Windsor facility. These costs, as well as amortization and facilities costs, associated with additional hotel rooms and the entertainment centre at Caesars Windsor, contributed to the year-over-year cost increase. These were partially offset by a reduction in gaming expenses at Caesars Windsor, primarily lower payroll costs for the table and slot departments, due to staffing efficiencies. Operating costs at both the Niagara Casinos and Casino Rama remained relatively unchanged on a year-over-year basis.

Under the terms of the operating agreements for all resort casinos, each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin - both as defined in each of the related operating agreements. The operator fee has increased by $2 million from the prior year, largely due to the increased revenues, as previously discussed.

C3. Resort Casinos Financial Key Performance Indicators

Below are the Resort Casino financial key performance indicators (KPIs) for fiscal 2009 compared to fiscal 2008.

	Fiscal 2009	Fiscal 2008
Adjusted EBIDA margin*	21.0%	21.6%
Marketing as a % of gaming revenue**	31.3%	29.0%
Payroll as a % of total revenue***	30.1%	31.6%

* The Adjusted EBIDA margin (please refer to Section 6 - Disclosures for Adjusted EBIDA Calculation) represents earnings before interest expense, win contribution, depreciations and amortization as a percentage of total revenue. EBIDA margin is a common measure used in the gaming industry and is useful to management in assessing the performance of the Corporation's ongoing operations and its ability to generate cash flows. OLG adjusts EBIDA by adding back win contribution to ensure comparability of profitability margins across divisions and with other gaming organizations.

** Marketing expenses include promotional allowances (including the retail value of accommodation, food and beverage and other goods provided on a complimentary basis to patrons), promotions, advertising, corporate marketing and the applicable GST expense, but exclude payroll costs. These expenses are divided by gaming revenue. Gaming revenue includes revenue from slot and table gaming operations but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit expenses by total revenue. (Please refer to Section 6 - Disclosures for Reconciliation of Total Revenue).

The Adjusted EBIDA margin for the Resort Casinos Division was less than last year's due to higher operating expenses.

Marketing as a percentage of gaming revenue was higher than last year as the marketing strategy was refined to mitigate the impact of increased competition and weakening economic conditions. Payroll costs were managed to business volumes and an employee voluntary exit program was offered at the Niagara properties.

C4. Resort Casinos Trends

The addition of amenities at Caesars Windsor generated renewed interest in the property, leading to an increase in revenue of $26 million over the previous year. The amenities and rebranding were unveiled on June 19, 2008, and include a 5,000-seat entertainment centre, a convention centre and a 400-room hotel tower. However, there remains strong competition from the three casinos in the Detroit area and this continues to impact Caesars Windsor with the expanded facilities and added amenities offered at these properties. Although the size of the overall Detroit/Windsor gaming market has decreased with the recent decline in the automotive industry, Caesars Windsor's market share has increased from 15.9 per cent in May 2008, to 16.8 per cent as of March 2009, due in part to the interest generated by the expanded amenities.

Competition from the Seneca Niagara Casino and Hotel in New York continues to impact the operations of Casino Niagara and Fallsview Casino as combined revenue stayed consistent with the prior year at $628 million. The Niagara casinos compete for market share with five New York state facilities, which collectively offer approximately 9,100 slot machines and video lottery terminals. At the end of fiscal 2009, the Niagara Properties held a 60.2 per cent market share of the Niagara and Seneca Casino gaming market, down from the 61.0 per cent held in the previous year. At the regional level, 'racino' slot facilities in Pennsylvania offer approximately 7,950 slot machines to patrons.

Casino Rama's revenue was also down this year, dropping $11 million from last fiscal to $489 million in fiscal 2009. This is attributed primarily to ongoing competition within the province, from OLG properties such as the OLG slot operations at Woodbine Racetrack and Georgian Downs, and from neighbouring U.S. properties. Additionally, the high gas prices experienced during the summer of 2008 negatively impacted revenue.

C5. Resort Casinos Risks

The key challenges and risks to business at OLG's resort casinos are similar to those faced by other tourism-based businesses in Ontario, all of which were materially impacted by the economic downturn that began in the third quarter of fiscal 2009. The resort casinos responded on a number of fronts — cost containment, new promotional initiatives, the introduction of new high-value amenities and a lineup of world class entertainment. The expansion and rebranding at Caesars Windsor will deliver benefits in the long term to OLG as it enhances the gaming experience for patrons by providing them world class amenities in a competitive Windsor/Detroit market. In the short term, Caesars Windsor will not immediately show a profit, as the increase in operational and amortized costs during the first year exceeded the increase in revenue. This trend is expected to continue into fiscal 2010.

The Windsor/Detroit region, which relies heavily upon the automotive industry, has been hit particularly hard by the economic downturn. Windsor has experienced the highest unemployment rate of any city in Canada, while southeast Michigan has also experienced levels of unemployment among the highest in the United States. The uncertain economic environment has contributed to a decline in consumer confidence and discretionary spending. Given Caesars Windsor's reliance on U.S. patrons, its future success is directly tied to managing these difficult economic events. In fiscal 2010, Caesars Windsor will be focusing on the property's world class non-gaming amenities, optimizing their player database marketing program, controlling the overall cost structure of the facility and a continued focus on providing excellent customer service. These strategies will position Caesars Windsor to regain market share in the Windsor/Detroit market.

On June 1, 2009, the Western Hemisphere Travel Initiative takes effect. This will require all U.S. citizens over the age of 16 to present a valid passport, or other government-approved identification, in order to re-enter the U.S. by land. Towards the end of fiscal 2009, Caesars Windsor and the Niagara properties initiated marketing campaigns to aggressively manage the passport requirement issue with their U.S. patrons; however, it is anticipated that there will be a revenue reduction in fiscal 2010 as a result of this restriction.

2. Liquidity and Capital Resources

Cash derived from (used in):

($ millions)	2009	2008
Operating activities	**1,916**	1,872
Financing activities	**(1,700)**	(1,519)
Investing activities	**(253)**	(400)
Increase (decrease) in cash and cash equivalents	**(37)**	(47)

Cash generated from operations for the fiscal year ended March 31, 2009, was $1.9 billion, $44 million higher than the previous year, primarily due to higher revenues, partially offset by higher lottery prizes, commissions and non-gaming expenditures.

The amount expended on financing was $1.7 billion. This included repayment of loans to the Ontario Financing Authority (OFA) secured to acquire Fallsview Casino and to fund the Caesars Windsor expansion and Energy Centre projects, as well as payments to the Province of Ontario. The Fallsview Casino loan of $794 million was provided in fiscal 2005 and is repayable over five years, at an interest rate of 4.4 per cent per annum, with a balance of $44 million as at March 31, 2009. The Caesars Windsor expansion and Energy Centre loan funds were advanced over the course of the construction. The loan agreement was finalized in November 2008, with an initial loan balance of $226 million and is repayable over five years, at an interest rate of 3.2 per cent per annum, with a balance of $212 million as at March 31, 2009. Also included in financing activities are direct payments to the Province of Ontario, which totalled $1.6 billion, $214 million higher than last year. These payments represent net cash flow adjusted for working capital requirements and capital expenditures.

The amount expended on investments, which include capital acquisitions, was $253 million, or $147 million lower than the previous year. Capital expenditures account for $249 million of this category. The most significant investments this year included the expansion and redevelopment project at Caesars Windsor, construction of the Energy Centre also at Caesars Windsor and upgrades to slot machines.

3. Enterprise Risk Management

OLG faces a number of risks to its business that could significantly impact its ability to achieve its financial and non-financial business objectives. While risks cannot be eliminated, OLG's strategies aim to ensure that key risks are identified and managed within acceptable tolerance levels. A formal Enterprise Risk Management (ERM) process is applied to day-to-day business activities as well as to strategic initiatives and projects.

Through its ongoing environmental assessment, the Corporation continues to monitor the impact of the economic downturn on its business and the industry at large. As OLG is dependent on its suppliers to ensure timely and reliable delivery of products and services, the financial viability of these suppliers is critical. In addition, the broader gaming and entertainment sector is dependent upon consumers' discretionary spending. Consumers have been suddenly exposed to increasing unemployment, slowing wage gains and savings erosion. To mitigate these risks, OLG has increased due diligence over key suppliers and may need to take further cost containment measures to counter the increasing threat to revenue and profit expectations.

OLG's strategic priorities are based on a balanced framework built upon four pillars for success. Key business risks threatening the achievement of these goals, and mitigating actions taken during the year are outlined below:

1) Profit - returning dividends to support public initiatives.

    Strategic Planning, Competitor/Portfolio and Operational Effectiveness Risks

    In a strategic context, OLG must ensure that its plans are driven by all available inputs and based on the current external environment. It must respond effectively to shifts and trends in the marketplace to optimize business performance.

To support strategy, OLG must ensure that it effectively and efficiently manages its people, processes and systems.

Results for 2008-2009

OLG focused on diversifying its customer base through product and service innovation. Initiatives to support this strategy included planning enhancements to the Big Lotto category, beginning implementation of a 'mystery progressive' linking slot machines across OLG gaming sites, a slot refresh initiative and slot expansion plans. OLG continued to invest in the development of its people and improvements in processes and technology to manage its resources.

2) Player Experience - providing great, entertaining gaming experiences.

Customer Satisfaction and Business Interruption Risks

OLG must ensure that our products and services consistently meet or exceed expectations of our customers and must minimize the risk that unexpected events will interrupt day-to-day operations.

Results for 2008-2009

OLG focused on investing in its distribution infrastructure and channels, and leveraging data to create insights. Initiatives to support this strategy included the Caesars Windsor expansion, improvements in the Winner's Circle loyalty program, property re-imaging, a new Gaming scheduling system and INSTANT ticket checkers. Research into the development and acquisition of a new Gaming Management System, development of a new Big Lotto product, operational and customer service excellence programs, and development of Gaming site business continuity plans were other initiatives supporting this strategy.

3) Partnerships - helping our partner businesses and communities to thrive.

Stakeholder Relations Risk

OLG must effectively manage the interests of all of the parties that affect, or are affected by, the actions of the organization.

Results for 2008-2009

OLG focused on fostering stakeholder relationships through its Bingo Revitalization and Great Blue Heron Water Treatment Facility projects, promoting volunteerism, partnering with Bullfrog Power under its environment program, and sponsoring festivals and events in communities across the province. A Gaming strategy was developed to support government consideration of future gaming policy possibilities.

4) Public Trust - promoting public trust and responsible gaming.

Social Responsibility Risk

OLG must ensure that it does not conduct its affairs in such a way as to expose people, partners or its brand to harm.

Results for 2008-2009

OLG continued to promote responsible play and social responsibility within a culture of integrity and transparency. OLG continued to work hard to achieve the appropriate balance between revenue,

entertainment and social responsibility through its Responsible Gaming Strategy. Initiatives supporting this strategy included establishing Responsible Gaming Centres, a website providing information on treatment and gambling myths, the "Bet on Green" environmental program, responsible gaming training and the "Integrity Matters" whistle-blower program. Improving self-exclusion capabilities, INSTANT ticket checkers and further customer-protection measures were other key initiatives supporting this strategy.

4. Critical Accounting Policies and Estimates

The Corporation's accounting policies, which are disclosed in the Significant Accounting Policies note (Note 1 of the consolidated financial statements) are in accordance with Canadian generally accepted accounting principles (GAAP) and are applied on a consistent basis. The following policies noted below are considered critical.

Revenue recognition

Lottery and bingo games are sold to the public by contracted lottery retailers and bingo service providers. Revenue from lottery games, for which results are determined based on a draw, is recognized when tickets are sold to consumers and the related draw occurs. Revenue from INSTANT games is recognized when retailers make them available for sale to the public, as indicated by the retailer's activation of tickets. Revenue from sports wagering games and bingo gaming is recognized when the ticket, paper or electronic game is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the difference between amounts earned through gaming wagers less the payouts from those wagers, with liabilities recognized for funds deposited by patrons before gaming play occurs, for chips, and 'ticket-in, ticket-out' coupons in the patrons' possession, and for accruals related to the anticipated payout of progressive jackpots. Significant base jackpots for progressive slot machines are charged to revenue over the estimated jackpot life cycle. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins or credits played, are charged to revenue as the amounts of the jackpots increase.

Discretionary and non-discretionary incentive programs are recorded in accordance with the Canadian Institute of Chartered Accountants (CICA) Emerging Issues Committee Abstract 156, 'Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)' (EIC 156). EIC 156 requires that sales incentives and points earned in loyalty programs be recorded as a reduction of revenue. However, the Corporation recognizes incentives related to gaming play and points earned in loyalty programs as a promotional allowance, as described in Note 1(c), as the points are granted. Discretionary incentive programs, such as non-cashable free play, are offered based on past levels of play or to induce future play. Discretionary, non-cashable free play is not recorded as revenue. Non-discretionary incentive programs, such as point-based loyalty programs, are offered based on past levels of play.

Non-gaming revenue includes revenue from accommodations, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. Non-gaming revenue also includes the retail value of accommodations, food and beverage and other goods and services provided to patrons on a complimentary basis.

Promotional allowances

Promotional allowances include the retail value of accommodations, food and beverage and other goods and services provided to patrons on a complimentary basis, as well as the cost of points for the loyalty programs.

The players' loyalty programs at the resort casinos and casinos and slots at racetracks allow patrons to earn points based on the volume of play. These points, with the exception of the Total Rewards described below, are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. The patron's point balance will be forfeited if the patron does not earn additional points over the prior 12-month period. Promotional allowances include the estimated redemption value of the points as they are earned.

Patrons of Caesars Windsor participate in the Harrah's Entertainment Inc.'s (Harrah's) Total Rewards customer loyalty program. Total Rewards offers incentives to patrons who game at Caesars Windsor as well as at any of Harrah's casinos throughout the United States. Under the program, patrons are able to accumulate, or bank, reward credits over time, which they may redeem at their discretion under the terms of the program. The reward credit balance will be forfeited if the patron does not earn a reward credit over the prior six-month period. Caesars Windsor's portion of Total Rewards points earned by patrons is accrued as a liability based on estimated redemption.

Promotional allowances also include the retail value of coupons (accommodations, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is also included in non-gaming revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the consolidated statement of income and other comprehensive income.

Lottery prizes

Prize expense for lottery and bingo games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prize expense for annuity-based top prizes is based on the cost of the annuity purchased by the Corporation from a third party. An estimate for lottery prizes that will not be claimed is recognized as unclaimed prizes in the period revenue is recognized. Periodically, prize expense is adjusted to reflect amounts actually won and/or unclaimed.

Unclaimed prizes on national games are returned to the players through guaranteed jackpots and bonus draws. Unclaimed prizes on regional games are returned to the Province of Ontario through distributions to the Province. National games are administered by the Interprovincial Lottery Corporation and sold throughout Canada, while regional games are administered by the Corporation and sold only in Ontario.

Commissions and bonuses

Lottery retailers receive a commission of eight per cent on all INSTANT tickets and a commission of five per cent on all online tickets sold. Where a commission has been paid to retailers for ticket sales relating to future draws, this fee is recorded as a prepaid expense until the related revenue is recognized. Lottery retailers also receive a three per cent commission on INSTANT ticket redemptions and a commission of two per cent on online ticket redemptions. A $1,000 bonus is paid to any retailer who sells a major prize winning online ticket, excluding sports and daily games.

Bingo service providers receive a commission based on a percentage of total revenue, plus or minus incentive adjustments for achieving sales, prize payout and cost of goods sold targets. Municipalities that host the Corporation's bingo halls receive a commission based on a percentage of total revenue.

Racetrack operators and the horse racing industry (typically, horse people) each receive a predetermined percentage of revenue from slots, as outlined in the siteholder agreement with the corresponding racetrack operator. Municipalities that host an OLG Casino or Slots at Racetrack facility receive five per cent of revenue from slots up to 450 machines and two per cent of revenue from slot machines over 450. As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas of Scugog Island First Nation receive five per cent of the revenue from the slot machines.

Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days.

Property, plant and equipment

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	Over term of lease
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years
Energy Centre assets	15 to 20 years

Property, plant and equipment are amortized when available for use.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon substantial completion of the related project.

Interest charges incurred during the construction and development of property, plant and equipment are capitalized and amortized over the estimated useful life of the associated property, plant and equipment.

Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning, and property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Use of Estimates

The preparation of consolidated financial statements requires the Corporation to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses for the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of property, plant and equipment, other long-lived assets and goodwill, unclaimed prize liabilities, employee future benefit obligations, asset retirement obligations, the patrons' loyalty program provision, the amount due to Government of Canada and the outstanding chip, ticket and token liability. Actual results could differ from those estimates.

Financial instruments

All financial instruments have been classified into one of the following categories: available-for-sale, held-to-maturity, held-for-trading, loans and receivables or other financial liabilities. All financial instruments, including derivatives, are recorded on the consolidated balance sheet and are measured at fair value with the exception of held-to-maturity loans and receivables, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend upon their initial classification.

The Corporation classified all cash and cash equivalents, accounts receivables, restricted cash, cash and short-term investments held for First Nations as held-for-trading assets, which are measured at fair value and the changes in fair value are recognized in net income. Loans receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to Government of Canada, due to First Nations and long-term debt are classified as other financial liabilities. They are measured at amortized cost.

All derivatives, including embedded derivatives that must be separately accounted for, are measured at fair value, with changes in fair value recorded in the consolidated statement of income and other comprehensive income unless they are effective cash flow hedging instruments. The changes in fair value of cash flow hedging derivatives are recorded in other comprehensive income, to the extent effective, until the hedged asset or liability is recognized in the consolidated statement of income and other comprehensive income. Any hedge ineffectiveness is recognized in net income immediately.

The Corporation records all transaction costs and loan fees for financial assets and liabilities as a component of the related asset or liability and amortizes the costs using the effective interest rate method to interest expense over the life of the related asset or liability.

The Corporation uses derivative financial instruments to manage risks from market price fluctuations for energy. These instruments include forward pricing agreements. The Corporation does not enter into financial instruments for trading or speculative purposes. Changes in the fair value of derivatives are recorded in the consolidated statement of income and other comprehensive income.

Adoption of new accounting standards

i. Financial instruments

   Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3862, Financial Instruments - Disclosures (CICA 3862) and CICA Handbook Section 3863, Financial Instruments - Presentation (CICA 3863).

CICA 3862 requires disclosure about the significance of financial instruments on the Corporation's financial position and performance, the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the year and at the balance sheet date, and how the Corporation manages those risks.

CICA 3863 establishes standards for the presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have an impact on the classification and measurement of the Corporation's financial instruments.

ii. Capital Disclosures

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 1535, Capital Disclosures (CICA 1535). CICA 1535 requires the Corporation to disclose information that enables users of its financial statements to evaluate the Corporation's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences for non-compliance.

iii. Inventories

Effective April 1, 2008, the Corporation adopted CICA Handbook Section 3031, Inventories (CICA 3031). CICA 3031 provides enhanced guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The impact of adopting this new standard was immaterial to opening retained earnings as at April 1, 2008.

Inventories include spare parts for gaming, security and surveillance equipment, paper and ticket stock relating to lottery and bingo games, food and beverage inventory and retail inventory.

Recent Canadian accounting pronouncements

Goodwill and intangible assets:

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets (CICA 3064). CICA 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Under the new standard, the Corporation will no longer be allowed to defer pre-opening costs. The Corporation will adopt this new standard effective April 1, 2009, and is assessing the impact of the new standard on its consolidated financial statements.

5. International Financial Reporting Standards (IFRS)

In 2006, the Canadian Accounting Standards Board (AcSB) published a new strategic plan that will significantly affect financial reporting requirements for Canadian publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period.

In February 2008, the AcSB confirmed that IFRS will be mandatory in Canada for government business enterprises for fiscal periods beginning on or after January 1, 2011. The Corporation's first annual IFRS financial statements will be for the year ending March 31, 2012, and will include the comparative period of 2011.

In 2009, management executed a self-assessment exercise to determine where IFRS impacts may occur from both financial reporting and business risk perspectives. To ensure all potential IFRS impacts are addressed by the date of conversion, management created a detailed two-phase transition plan as outlined below. Management is evaluating accounting policy differences between Canadian GAAP and IFRS based on management's current understanding of what those standards will be for the year ending March 31, 2012.

In the period leading up to the transition, the AcSB will continue to issue accounting standards that are converged with IFRS, therefore mitigating the impact of the adopting IFRS at the transition date. The International Accounting Standards Board (IASB) will also continue to issue new accounting standards during the conversion period, and as a result, the final impact of IFRS on the Corporation's consolidated financial statements will only be measured once all the IFRS standards applicable to the transition date are known.

OLG's two-phased transition plan is as follows:

PHASE 1

This phase is the lead up to the IFRS opening balance sheet date of April 1, 2010. It involves four phases as follows:

1) Concept Phase

   This phase involves performing a high level impact assessment to identify key areas that may be impacted by the transition to IFRS. Areas that will be impacted are existing accounting policies, financial statement presentations and disclosures, information systems, internal controls over financial reporting and business processes.

   The target date for completion of this phase was April 30, 2009. This phase has been substantially completed and management has identified certain differences between Canadian GAAP and IFRS that may impact OLG's financial results and/or the Corporation's effort necessary to change over to IFRS. The main differences identified relate to (i) property plant and equipment, (ii) impairment, (iii) financial statement presentation and disclosures, and (iv) effects of transitional provisions of IFRS for first-time adopters. Management will continue to monitor IFRS standards for changes during the remainder of the transition.

2) Elaboration Phase

   In this phase, each impact area identified from the concept phase will be addressed with a detailed analysis. The purpose of each analysis is to ensure management has thoroughly investigated each IFRS impact for changes required to current accounting policies, financial statement disclosure requirements and business processes. As analyses are completed, changes to accounting policies and disclosures will be authorized by the Audit and Risk Management Committee. The final step of this phase will be to alter and revise the transition plan as necessary to ensure all impacts are addressed.

   The target date of completion of this phase is fall 2009. This phase is currently underway and progressing as planned.

3) Design and Build Phase

   This phase involves taking the outcomes and recommendations from the elaboration phase and tailoring information system enhancements and operational changes where necessary. Also included in this phase is the planning and development of the IFRS training program which will be a requirement for all applicable staff.

   This phase is scheduled to be completed by December 31, 2009.

4) Transition Phase

This phase involves the testing of changes developed in the design and build phase and implementing dual reporting. This desired outcome will be the ability to collect the financial information necessary to compile an IFRS-compliant opening balance sheet as of April 1, 2010, and the ability to dual report under Canadian GAAP and IFRS during the transition period to March 31, 2012. This phase will also include the rollout of the IFRS training program to OLG Finance department staff.

This phase is scheduled to be completed by March 31, 2010.

PHASE 2

This phase considers the steps necessary from the IFRS opening balance sheet of April 1, 2010, to the IFRS go-live date on April 1, 2011.

Management will monitor the IFRS tracking tools implemented in Phase 1, review IFRS standards for changes and assess impacts and roll out the second phase of IFRS training. This will comprise a broad-based training program involving Finance department employees along with others outside the department as deemed necessary.

This phase is scheduled to be completed by March 31, 2011.

6. Disclosures

Reconciliation of Net Income

The items listed represent the income and expense amounts required to reconcile adjusted EBIDA with net income as defined under Canadian GAAP.

2009	Lotteries and Bingo	Resort Casinos	OLG Casinos and Slots at Racetracks	Total
Adjusted EBIDA	$ 788,587	$ 365,399	$ 1,090,180	$ 2,244,166
Amortization	(31,899)	(146,301)	(85,633)	(263,833)
Interest on long-term debt	(100)	(9,216)	-	(9,316)
Win contribution	-	(287,449)	(18,188)	(305,637)
Reallocation of support services and inter-company activity	1,948	7,386	(1,867)	7,467
Net income as referenced in Note 15	$ 758,536	$ (70,181)	$ 984,492	$ 1,672,847

2008	Lotteries and Bingo	Resort Casinos	OLG Casinos and Slots at Racetracks	Total
Adjusted EBIDA	$ 718,610	$ 369,042	$ 1,084,036	$ 2,171,688
Amortization	(33,211)	(137,679)	(88,617)	(259,507)
Interest on long-term debt	(976)	(13,228)	-	(14,204)
Win contribution	-	(285,304)	(17,939)	(303,243)
Reallocation of support services and inter-company activity	2,806	11,270	(1,379)	12,697
Net income as referenced in Note 15	$ 687,229	$ (55,899)	$ 976,101	$ 1,607,431

The allocation of support services and inter-company activity is removed when determining Adjusted EBIDA as these items are deemed to be outside of the scope of control of divisional management and are, therefore, excluded from internal profitability measures.

Reconciliation of Total Revenue

This table reconciles total revenue with revenue as referenced in Note 15 of the financial statements and defined under Canadian GAAP. Total revenue is used as the denominator in the calculation of the Adjusted EBIDA margin and payroll as a percentage of total revenue.

2009	Lottery & Bingo	Resort Casinos	OLG Casinos and Slots at Racetracks	Total
Total revenue	$ 1,293,581	$ 1,741,078	$ 2,152,065	$ 5,186,724
Lottery prizes	1,655,987	-	-	1,655,987
Interest and other income	(3,085)	(18,833)	(15,877)	(37,795)
Foreign exchange loss (gain)	(667)	(14,341)	(2,754)	(17,762)
Reallocation of support services	1,800	131	4,426	6,357
Revenue as referenced in Note 15	$ 2,947,616	$ 1,708,035	$ 2,137,860	$ 6,793,511

2008	Lottery & Bingo	Resort Casinos	OLG Casinos and Slots at Racetracks	Total
Total revenue	$ 1,210,180	$ 1,704,645	$ 2,140,019	$ 5,054,844
Lottery prizes	1,566,091	-	-	1,566,091
Interest and other income	(5,678)	(23,051)	(19,412)	(48,141)
Foreign exchange loss (gain)	(37)	(9,545)	(1,457)	(11,039)
Re-allocation of support services	2,569	(394)	4,454	6,629
Revenue as referenced in Note 15	$ 2,773,125	$ 1,671,655	$ 2,123,604	$ 6,568,384

Fees paid to External Auditors

For the fiscal year ended March 31, 2009, the Corporation retained its independent auditor, KPMG LLP, to provide services in the categories and amounts shown below. For fiscal 2008 comparatives, fees were paid to Grant Thornton LLP, KPMG LLP and Ernst & Young LLP for the corresponding categories.

	Fiscal 2009	Fiscal 2008			
	Total	Grant Thornton	KPMG	Ernst & Young	Total
Audit services	$ 1,020,350	$ 225,075	$ 981,229	$ 219,825	$ 1,426,129
Audit-related services	178,090	43,411	145,238	-	188,649
Tax services	99,648	-	54,287	-	54,287
Other services	734,919	298,777	503,177	126,500	928,454
Total of all services	$ 2,033,007	$ 567,263	$ 1,683,931	$ 346,325	$ 2,597,519

Note: Prepared on an accrual basis.

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